Total Petroleum (North America) Ltd.
1976 Annual Report

CONTENTS

Highlights 2

To Our Shareholders 3

Exploration 4

Production 16

Reserves 17

Land Holdings 18

Refining 19

Supply and Transportation . 22

Marketing 24

Management Discussion ... 26

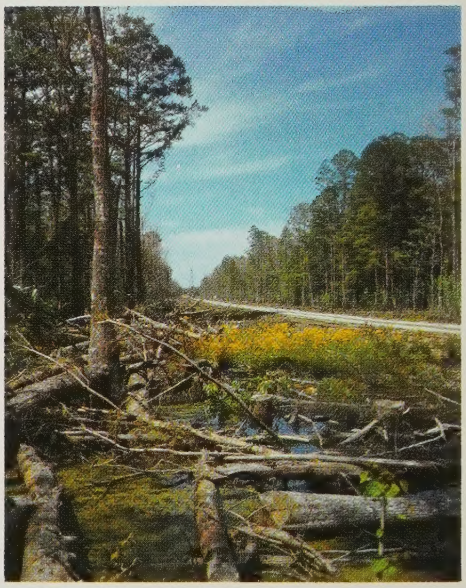
Market and Dividend 29

Summary of Operations 30

Annual Meeting 32

Consolidated Financial Statements 33

Directors and Officers 44



COVER

Picture of Hanover Petroleum Corporation's successful Brown A-1 gas well located in Assumption Parish, Louisiana. TOTAL acquired Hanover Petroleum in 1976. (See Page 14)

ACKNOWLEDGEMENT

Photographs by Robert S. Moore, Administrative Assistant to the TOTAL Brand Division General Manager.

COMPANY PROFILE

Total Petroleum (North America) Ltd. is a medium-sized petroleum company active in Canada and the United States. TOTAL developed from oil and gas production in Western Canada and refining and marketing operations in Michigan. Exploration activity and the 1976 acquisition of Hanover Petroleum Corporation have extended oil and gas production operations into the U.S. TOTAL continues to expand its capital investments in North American exploration and production as well as refining and marketing in the U.S.

Corporate Headquarters
639 Fifth Avenue, S.W.
Calgary, Alberta T2P OM9
Telephone 403/265-9080

Subsidiaries (Wholly-Owned)

Total Petroleum, Inc. (formerly TOTAL Leonard, Inc.)

Corporate Headquarters
East Superior Street
Alma, Michigan 48801
Telephone 517/463-1161

Exploration & Production Headquarters
2950 One Allen Center
500 Dallas Avenue
Houston, Texas 77002
Telephone 713/658-0972

Marketing Headquarters
28001 Citrin Drive
Romulus, Michigan 48174
Telephone 313/946-5500

Hanover Petroleum Corporation

5 Hanover Square
New York, New York 10004
Telephone 212/952-4646

211 N. Ervay
Dallas, Texas 75201
Telephone 214/651-8133

highlights

OPERATING	1976	1975
Crude oil production (Bbls. per day) (*)	9,711	6,095
Natural gas sales (thousands of cubic feet per day) (*)	43,130	21,872
Proven crude oil reserves (Bbls.)	38,503,000	32,914,000
Proven gas reserves (thousands of cubic feet)	244,400,000	203,859,000
Crude oil refined (Bbls. per day)	38,520	37,612
Refined product sales (Bbls. per day)	47,754	44,736

FINANCIAL		
Total revenue	$298,718,000	$248,010,000
Net earnings	10,446,000	8,998,000
Earnings per share	.82	.70
Funds provided by operations (**)	32,433,000	25,685,000
Capital expenditures (excluding Hanover acquisition)	34,521,000	27,630,000
Shareholders' equity	117,144,000	105,206,000
Total assets	264,871,000	195,293,000

(*) Includes Hanover Petroleum Corporation's average daily production for eight months of 1976.

(**) Net income plus income charges not affecting working capital in the year. Refer to Consolidated Statements of Changes in Financial Position for other sources and uses of funds.

to our shareholders:

Total Petroleum (North America) Ltd. achieved new records in 1976, on what we believe to be a steady trend of growing earnings and cash flow.

The results highlighted on the opposite page reflect significant progress toward TOTAL's major objective of increasing funds generated from operations. Not only are such funds the basis of capital available for reinvestment into the growth of our business, but the ability to generate cash has a significant influence on the terms we may receive from lenders to finance expansion.

TOTAL's policy of growth is built on the foundations of our existing assets and management capabilities, while seeking to take advantage of the many opportunities that exist in North America, for a company our size, to play an increasing part in the supply of energy.

TOTAL's major, cash flow producing assets remain our western Canadian oil and gas reserves, and our refining and marketing operations in Michigan. We have made two significant additions in 1976:

First, our five-year exploration effort in Northern Michigan has now matured to become a sizeable contribution to cash flow from oil and gas production.

Second, the acquisition of Hanover Petroleum Corporation in 1976 has made an even larger contribution to U.S. oil and gas production and resulting cash flow.

As a consequence, whereas TOTAL's U.S. oil and gas production was practically nil in 1973, it is now equivalent, both in volume and income, to our Canadian production. Two-thirds of our funds generated from operations in 1976 was obtained from oil and gas production.

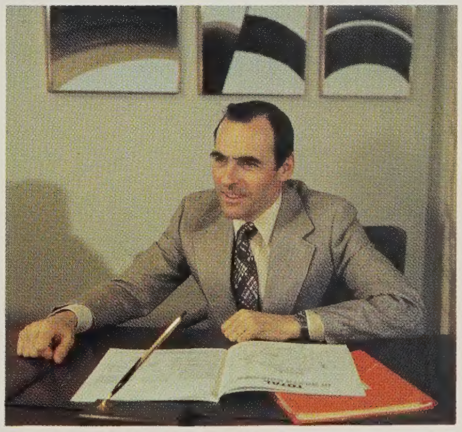
While continuing to pursue attractive exploration prospects both in Canada and in the U.S., we increased our attention to potential improvements in the efficiency and profitability of our refining operations. The Alma refinery is well located to competitively supply the central Michigan market. A three-year, $13 million program, initiated in 1976, is designed to increase yields of high-value gasoline, reduce energy consumption and meet the phase-down schedule of lead additives mandated by the U.S. Environmental Protection Agency.

Adequate crude oil supply at competitive cost is essential for the profitability of refining and marketing operations. Over the past four years, we have successfully coped with drastic changes, not the least being the nearly complete phase-out of Canadian imports. This has been a test of the flexibility and reliability of our supply system. TOTAL's recently modernized pipeline network, which connects us to all major common carriers, is a significant element of this supply system.

In 1977, we will continue to seek growth opportunities, first internally by increasing capital investments in areas of proven success, as outlined above. TOTAL's capital expenditure program will be in excess of $40 million, an increase of more than 20% over 1976. In exploration and production, we will emphasize on-shore ventures with expected short-term returns and a distribution of risks in accordance with our overall financial resources, while retaining a reasonable involvement in a few long-term ventures such as offshore Labrador and heavy oil development. In refining and marketing, the bulk of the capital budget will be devoted to the refinery upgrading program. In addition, we will continue to examine acquisition opportunities within our Industry.

Profits generated by the Petroleum Industry are influenced to a large extent by the numerous regulatory constraints which have proliferated since 1973. While still imposing a heavy administrative burden, it is fair to say that regulations in Canada and the U.S., as they pertain to crude oil and product prices, have evolved favorably in the past year, and allow adequate returns for efficient operators. One can only hope that the past severe winter will serve to focus attention on the existence of a continuing energy crisis and speed up the removal of unnecessary or damaging regulations, such as controls on interstate natural gas prices in the U.S.

We would not look to the future with such confidence without the positive involvement of a competent and dedicated staff, and the support of our shareholders.



On behalf of the
Board of Directors,

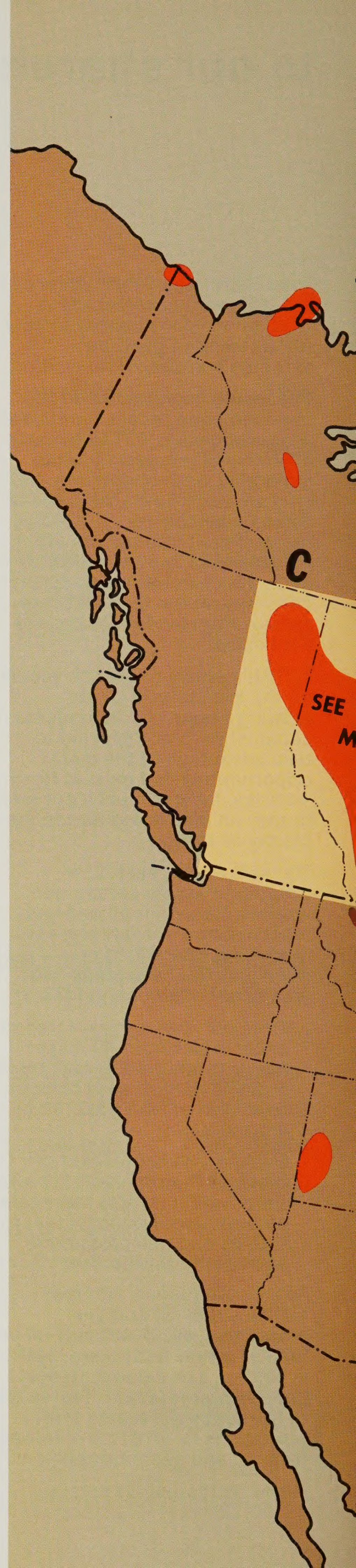
Philippe Dunoyer, President

exploration and production

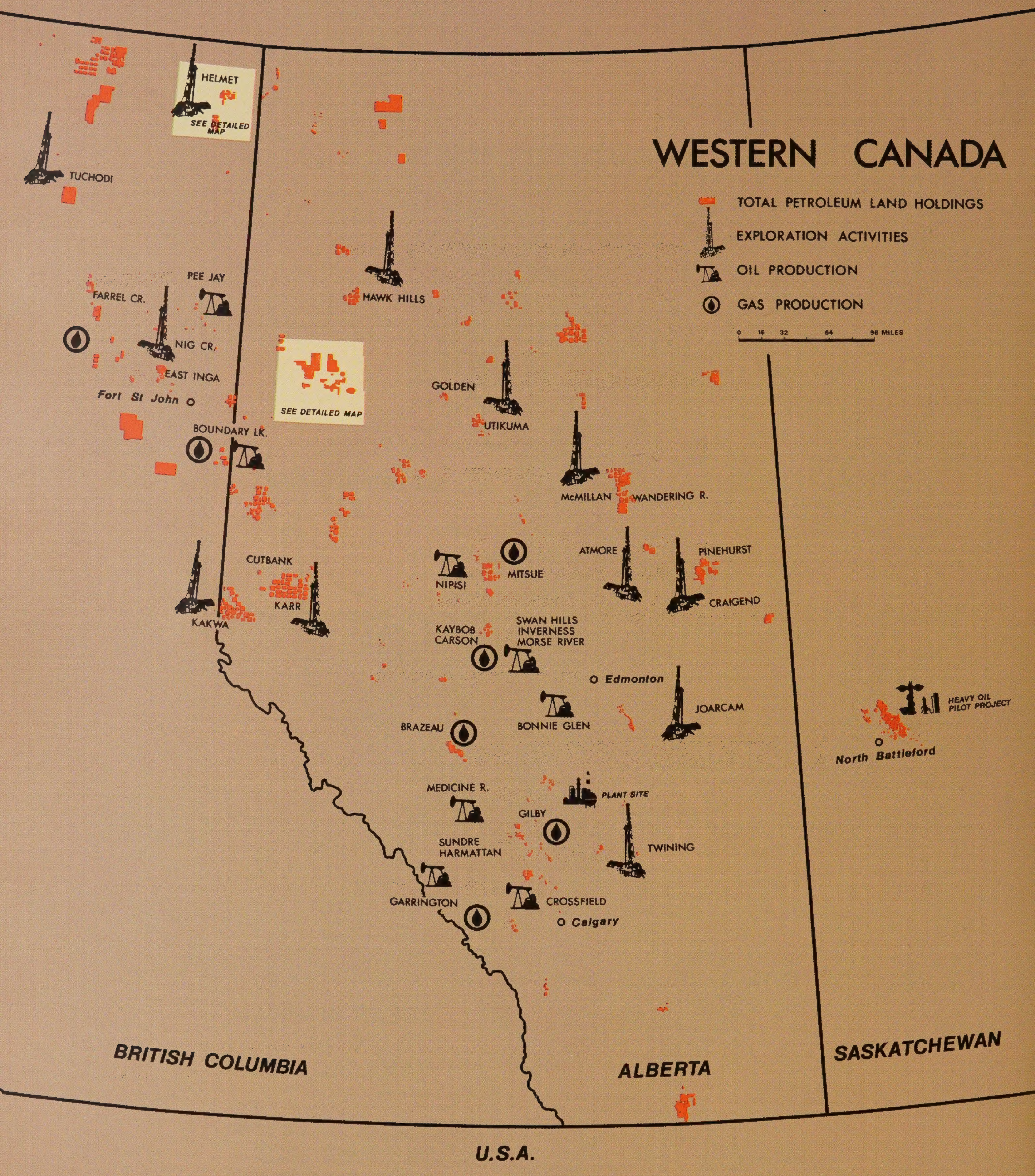
Philippe Magnier,
Vice President-
Exploration and Production

In 1976, TOTAL participated in the drilling of 117 exploratory wells and 97 development wells. This program led to the discovery of 68 oil wells and 48 gas wells, which represents a success ratio of over 50%. Hanover Petroleum Corporation made a substantial contribution to the success of the 1976 drilling campaign.

TOTAL's production of crude oil in 1976 was up 40% from 1975 and natural gas sales were up 70%. TOTAL's reserves at 1976 year-end were up 17% for crude oil and 20% for gas.

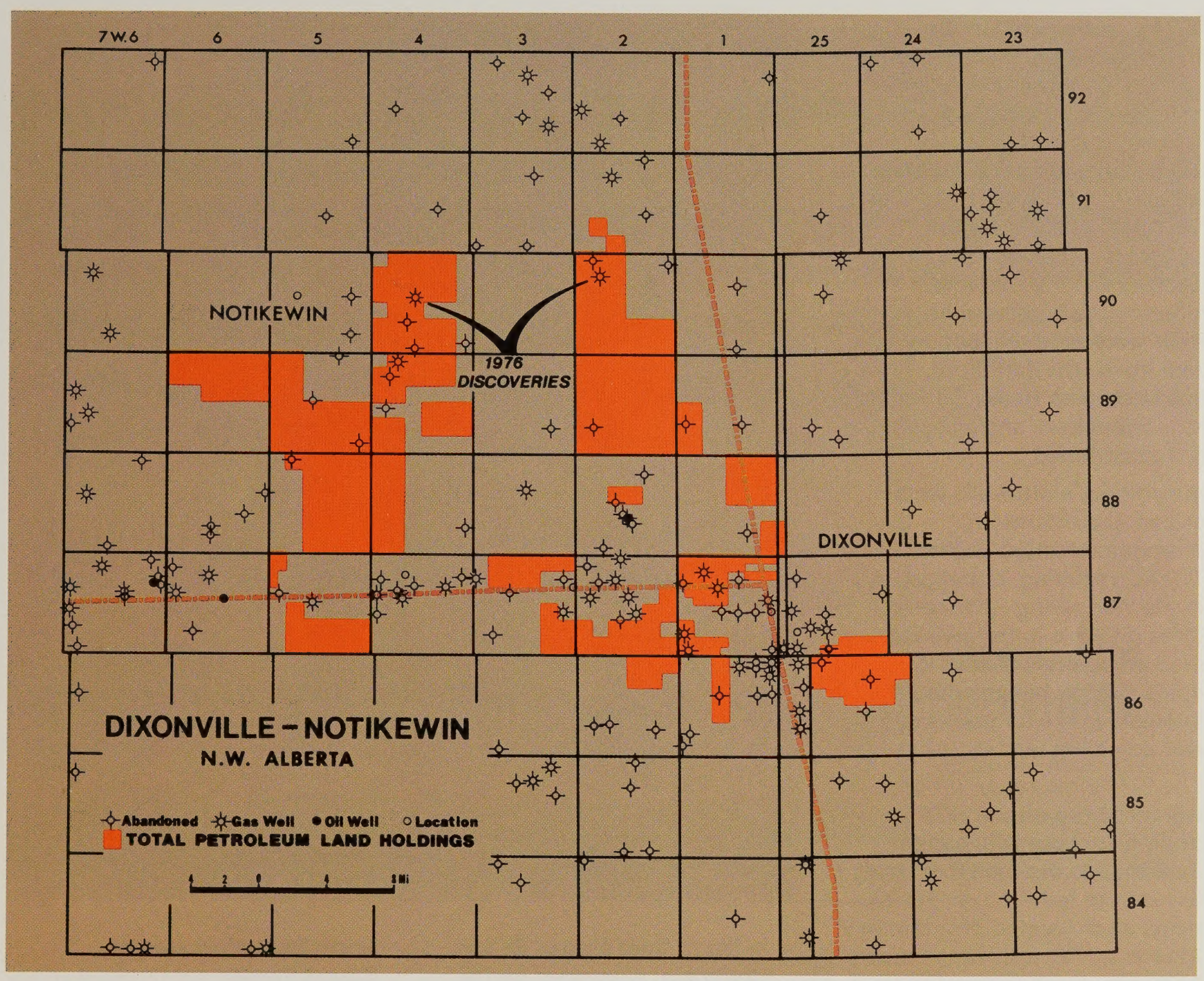



N A D A
SEE DETAILED MAP
SEE DETAILED MAP
U S A
AREAS IN WHICH `TOTAL´ HAS LAND INTERESTS
AREAS IN WHICH HANOVER HAS LAND INTERESTS
0
500
1000 Mi.



WESTERN CANADA
TOTAL PETROLEUM LAND HOLDINGS
EXPLORATION ACTIVITIES
OIL PRODUCTION
GAS PRODUCTION
0 16 32 64 96 MILES
HELMET
SEE DETAILED MAP
TUCHODI
PEE JAY
FARREL CR.
NIG CR.
EAST INGA
Fort St John
BOUNDARY LK.
SEE DETAILED MAP
HAWK HILLS
GOLDEN
UTIKUMA
McMILLAN
WANDERING R.
ATMORE
PINEHURST
CRAIGEND
CUTBANK
KARR
KAKWA
NIPISI
MITSUE
KAYBOB
CARSON
SWAN HILLS
INVERNESS
MORSE RIVER
Edmonton
JOARCAM
HEAVY OIL
PILOT PROJECT
North Battleford
BRAZEAU
BONNIE GLEN
MEDICINE R.
PLANT SITE
GILBY
SUNDRE
HARMATTAN
TWINING
GARRINGTON
CROSSFIELD
Calgary
BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
U.S.A.

western Canada



CANADA DRILLING ACTIVITY	1976		1975	
EXPLORATORY WELLS*	Gross	Net	Gross	Net
Oil	1	.50	—	—
Gas	15	6.99	4	1.95
Dry	15	5.27	8	2.91
Total	31	12.76	12	4.86
Success Ratio	52%	59%	33%	40%
DEVELOPMENT WELLS*				
Oil	6	1.62	3	2
Gas	2	.30	—	—
Dry	—	—	—	—
Total	8	1.92	3	2

(*) Includes wells in which TOTAL participated or farmed out in Western Canada, Labrador and the Heavy Oil Project.

During 1976, TOTAL's Canadian exploration and drilling activity was considerably increased over the previous year as government royalty and tax regulations were clarified and gas and oil prices improved.

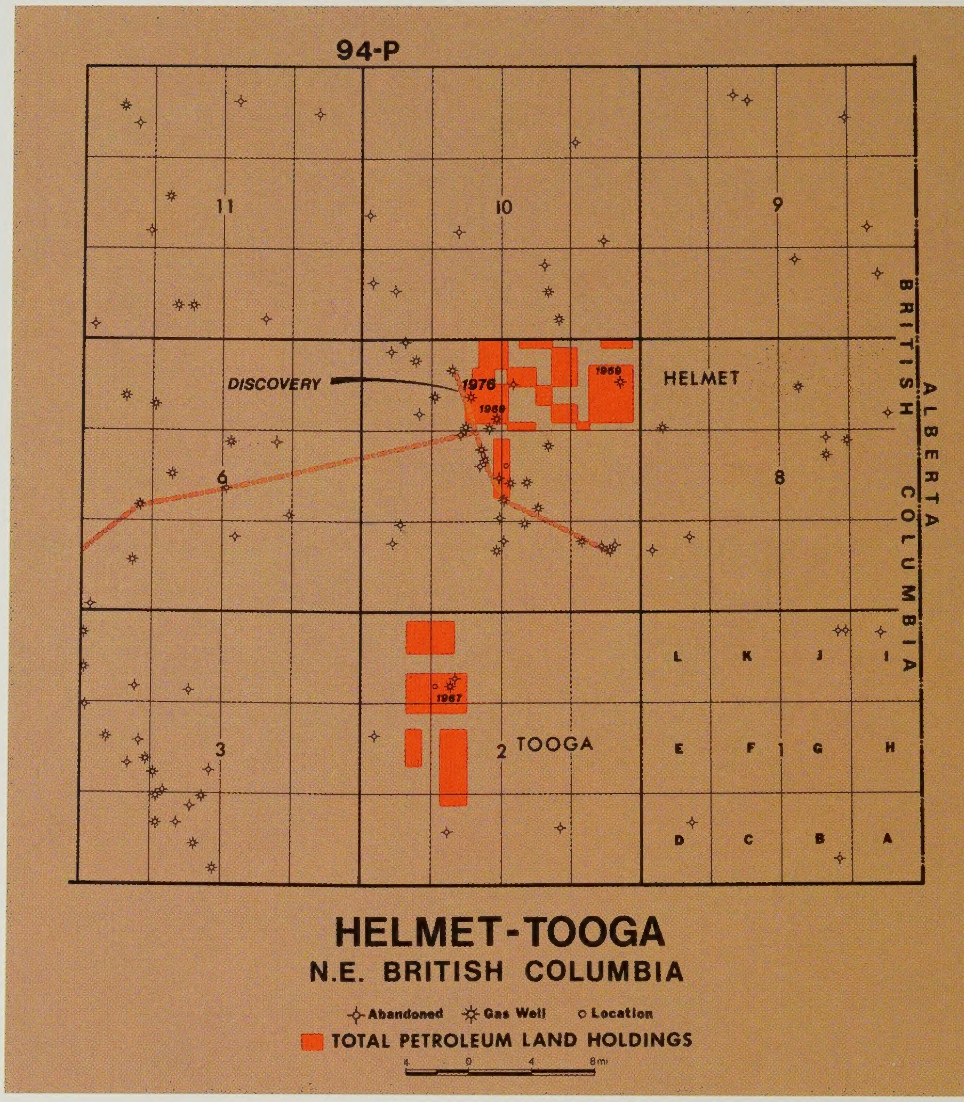
TOTAL's program in 1976 was primarily directed toward seismic activity and exploratory drilling to evaluate its land holdings. A number of step-out wells were also drilled to delineate gas reserves discovered earlier.

TOTAL participated in the drilling of 28 wells in Western Canada. Of these, 15 wells were new gas discoveries in the Atmore, Joarcam, Karr, Notikewin and Pinehurst areas in Alberta and in the Helmet and Nig Creek areas in British Columbia. One well was an oil discovery in the Utikuma, Alberta area and three heavy oil wells were drilled in connection with the North Battleford, Saskatchewan Heavy Oil Project. Nine wells were unsuccessful and abandoned.

In addition, eight wells were drilled under farmout arrangement at no cost to TOTAL, resulting in one gas well in the Wandering River area, three oil wells in the Twining area in Alberta and four dry holes. TOTAL has retained interests in the farmout wells and adjoining lands.

The 1977 exploration program will follow-up on the 1976 drilling success with capital investments directed to a short to medium term return. TOTAL plans an expanded program in Alberta and British Columbia in 1977, which will involve seismic operations, the drilling of more than 50 wells and the acquisition of new prospective acreage:

- TOTAL was active in 1976 in the Dixonville-Notikewin area highlighted on the accompanying area map. In the Dixonville area, two prior gas discoveries were placed on production and in the Notikewin area, two new gas discoveries were drilled. TOTAL plans additional seismic work and the drilling of a minimum of six wells in this area in 1977.



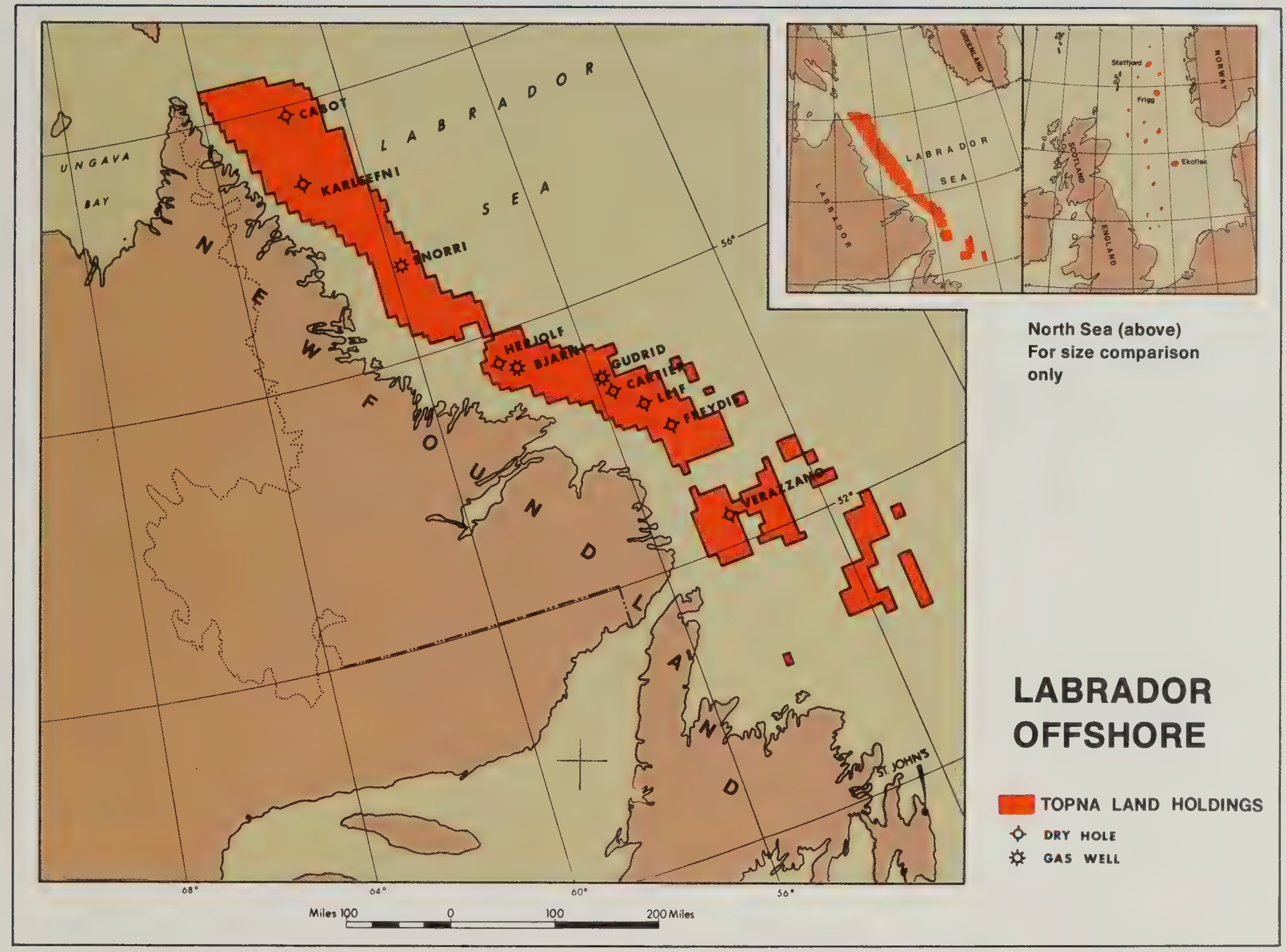
- In the Helmet area of British Columbia, illustrated on the accompanying Helmet-Tooga area map, an earlier gas discovery was placed on production and a 1976 gas discovery will be placed on production in 1977. In the Tooga area where TOTAL has an interest in a shut-in gas discovery, seismic and additional drilling will be conducted for further evaluation.

HEAVY OIL PROJECT

The experimental project for "in-situ" recovery of heavy oil in the North Battleford area of Saskatchewan continued during 1976.

A 5-acre five-spot (five wells spaced over five acres) was completed by drilling three additional heavy oil wells during the first quarter of 1976. Steam stimulation was conducted during the summer season and a total of 8,100 barrels of crude was produced over two steam cycles. Results were encouraging and the program with the existing five wells will be continued during the summer of 1977. TOTAL has a 50% interest in this project.

Labrador



In Offshore Labrador, drilling was attempted on the northerly Cabot location and at the Verrazano location in the south. Technical difficulties were encountered and both wells were suspended. The Snorri well was re-entered and on the tests flowed 8,500 MCFPD of gas and condensate. The Karlsefni test was also re-entered and deepened to 13,600 feet as a further evaluation of the northerly area. No hydrocarbon reservoir was encountered and the Karlsefni well was abandoned. The Herjolf well, close to the Bjarni H-81 1974 gas discovery, indicated a considerable thickening of these sands, but was structurally too low to either prove an extension of the gas or the existence of a still possible oil rim. The well was subsequently abandoned. TOTAL, a 5% participant of the Labrador group, is optimistic that the gas discoveries made so far justify continuing the exploration efforts. However, the 1977 program has not yet been finalized as the Labrador group is requesting clarification of government regulations.


N.W. MICHIGAN
TOPNA LAND HOLDINGS
EXPLORATION ACTIVITIES
OIL PRODUCTION
GAS PRODUCTION
6 0 6 12 18 Miles
Approx Scale
BLACK RIVER
GAYLORD
SEE DETAILED MAP
KALKASKA
NESSEN
COPEMISH
PLEASANTON
SEE DETAILED MAP
HAMLIN LAKE
ALMA

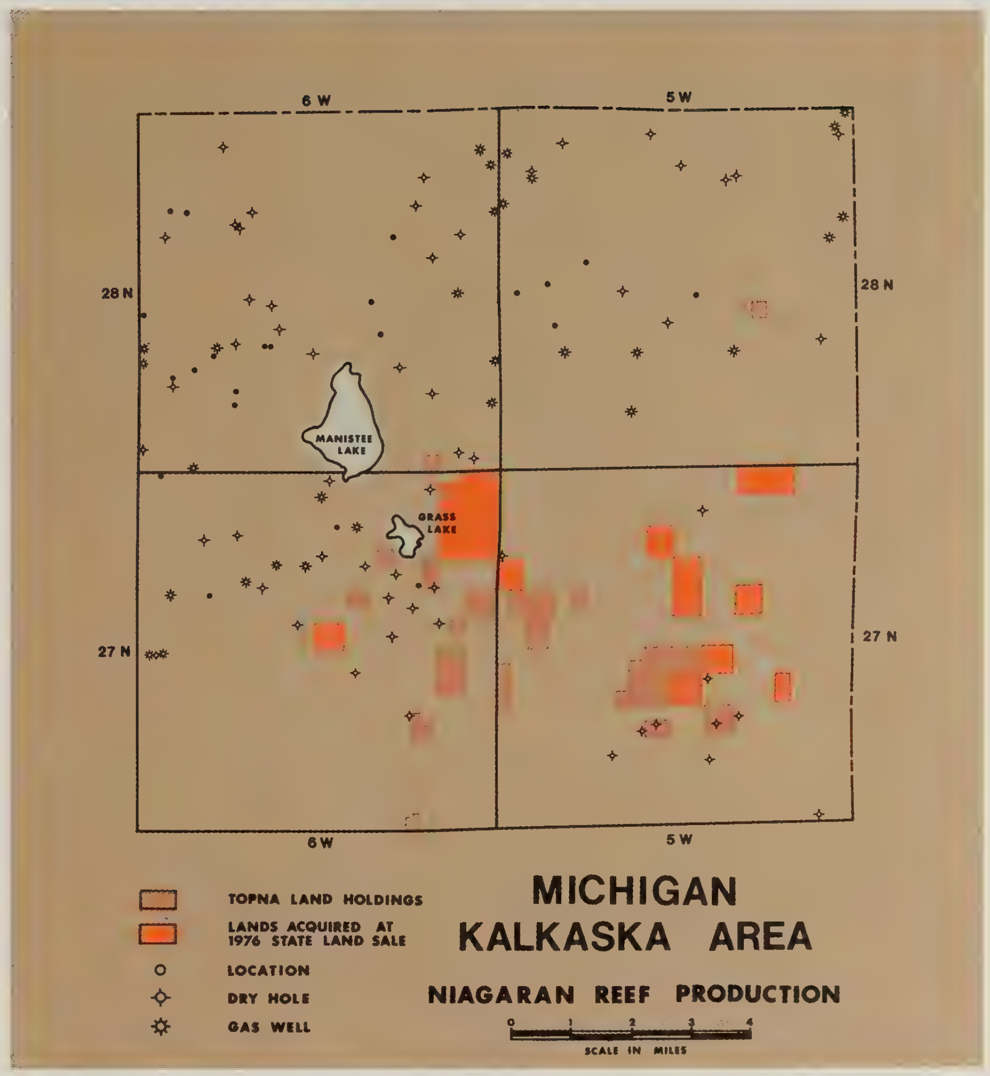
United States

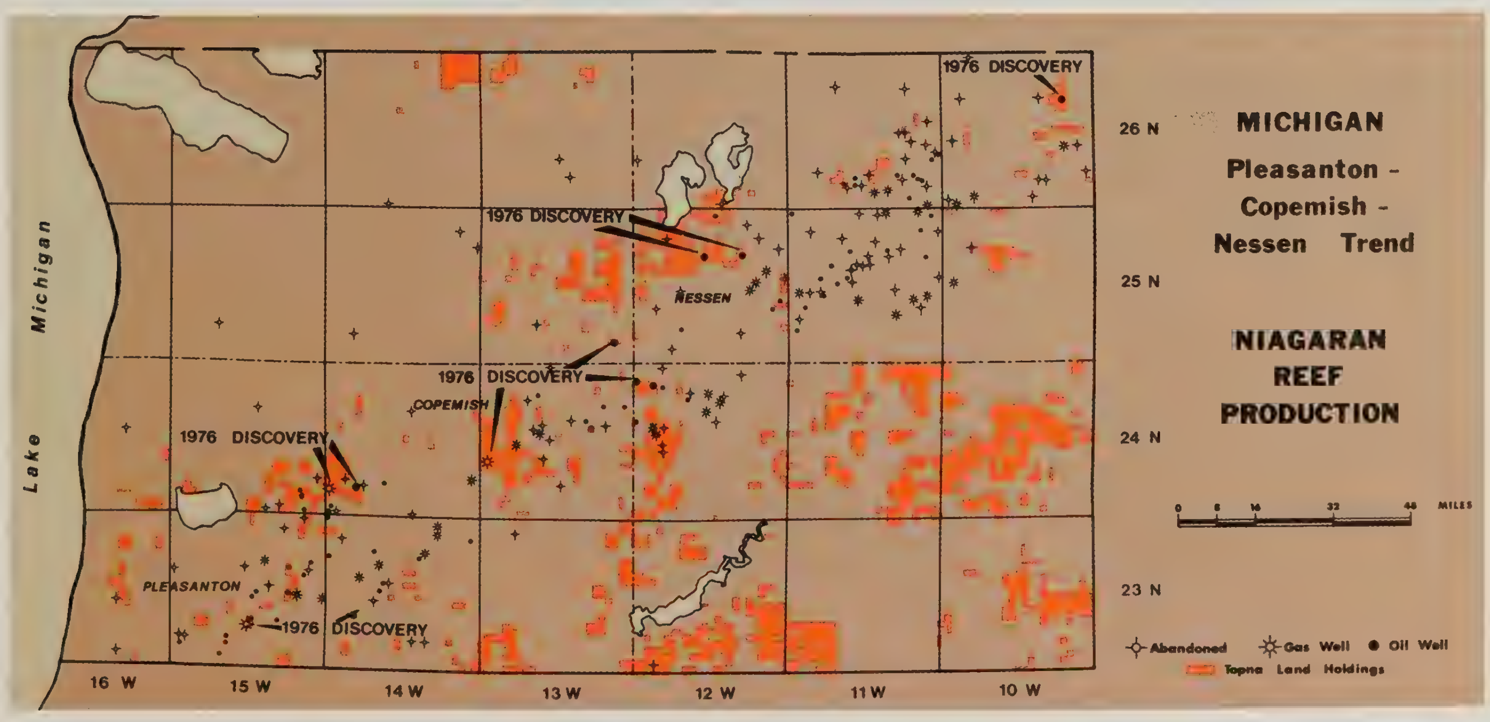
Michigan

In Michigan, TOTAL participated in the drilling of 34 exploratory and development wells, resulting in nine discoveries. The total number of producing wells in which TOTAL has an interest stands at 47 at the end of 1976.

The Pleasanton-Copemish-Nessen area continues to be TOTAL's most active play; a map of this area indicates the acreage held by TOTAL as well as existing oil and gas wells. Additional wells are planned in this area during 1977.

In the Kalkaska Area, shown on the accompanying map, TOTAL's acreage position increased significantly through the acquisition of 2,418 net acres at the state land sale held in August 1976. Evaluation of this acreage is scheduled to commence in 1977.





During the second half of the year, responsibilities for TOTAL's exploration and production activities in Michigan and Illinois were transferred from Calgary to Houston.

U.S. Other Onshore Areas

TOTAL's exploratory activities in 1976 involved the selection of prospects offering short term return with a limited financial risk in each individual venture. The land acquisition program initated in years past has been continued in Mississippi, Florida, the Texas Gulf Coast and the Anadarko basin of Oklahoma. Acreage has also been recently acquired in the overthrust belt in Wyoming.

A number of the subsequently identified prospects were drilled during the year, but many remain to be tested. A limited drilling program in Illinois and Florida did not bring favorable results. On the other hand the drilling of three wells in Oklahoma resulted in two successful gas wells in which TOTAL has a 6% and 12.5% working interest. Four wells were drilled in Jim Wells County, Texas, of which two are small gas producers and one is an oil discovery currently completing. For 1977, TOTAL's program centers around the evaluation of prospects in Oklahoma and the Texas Gulf Coast. At the same time new leads for exploration in other areas of interest will be developed.

Typical fall drilling scene in northern Michigan

Offshore — Gulf Coast

TOTAL owns a 10% interest in five blocks acquired offshore South Texas in 1975 and 1976. A 5% participation was taken in the drilling of a well on the border line of block 831 and block 828, where a gas discovery was made in 1975. This step-out well was abandoned. TOTAL also has a 10% participation in the drilling of a 13,000 feet test well on block 755; this well was drilling at year end. A test well is planned on block 555 in 1977.

UNITED STATES DRILLING ACTIVITY (EXCLUDING HANOVER PETROLEUM CORPORATION)

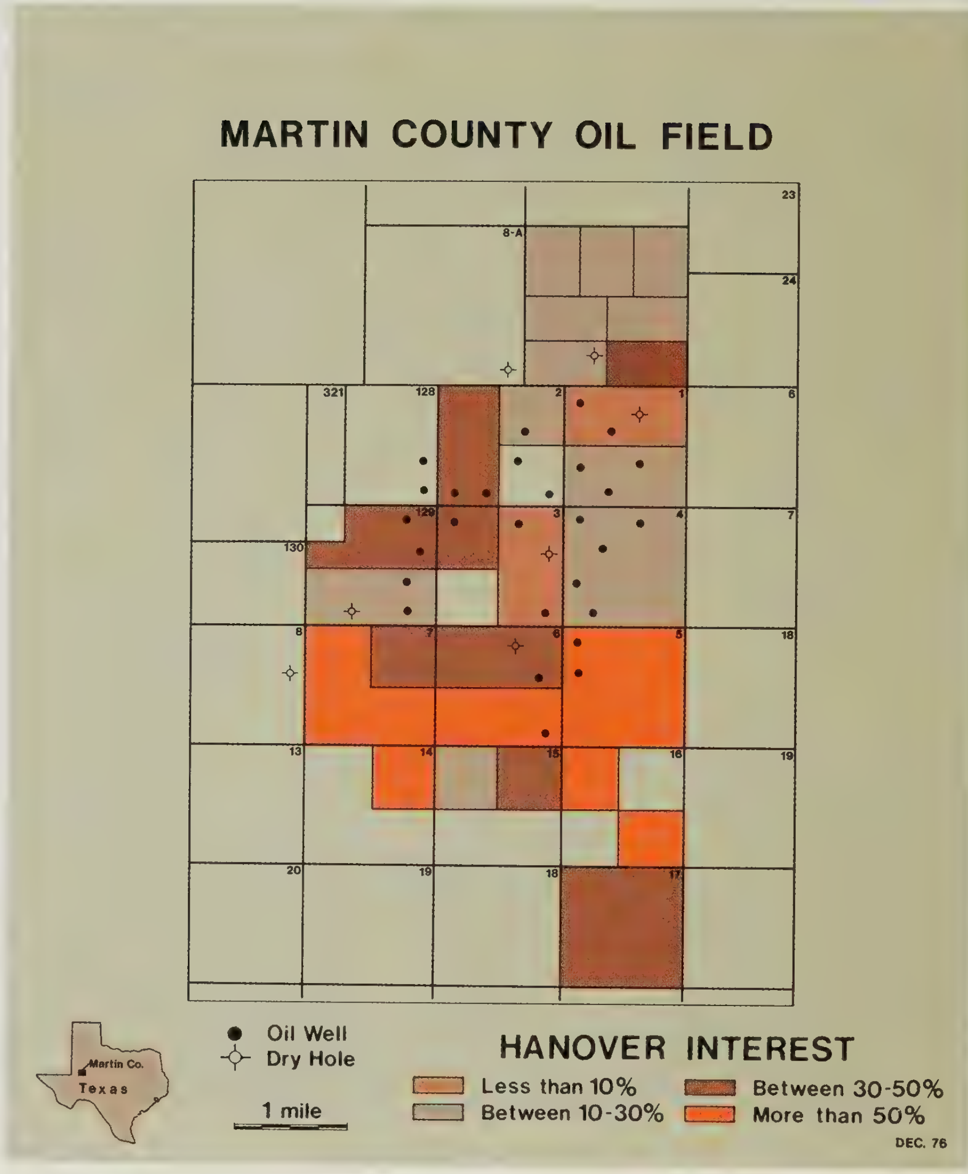
	1976		1975	
EXPLORATORY WELLS	Gross	Net	Gross	Net
Oil	8	3.00	9	4.40
Gas	8	3.60	2	.31
Dry	32	11.50	23	5.51
Total	48	18.10	34	10.22
Success Ratio	33%	37%	32%	46%
DEVELOPMENT WELLS				
Oil	1	1.00	—	—
Gas	1	0.06	—	—
Dry	1	0.70	—	—
Total	3	1.76	—	—

Hanover Petroleum Corporation

The merger of Hanover Petroleum Corporation into TOTAL became effective April 30, 1976. Hanover's operations are included in TOTAL's operating and financial results for the last 8 months of 1976. After the merger, Hanover continued its operations as a subsidiary of TOTAL under existing management. Amalgamation of Hanover's management and personnel with TOTAL has proceeded smoothly. Hanover made a solid contribution to TOTAL's cash generated from operations in 1976 and this contribution will increase in 1977.

By acquiring Hanover, TOTAL increased its production of oil and gas in the United States. Hanover's production of crude oil since April 30, 1976 was 3,679 barrels per day and its sales of natural gas were 18,210 MCFPD. Hanover and its drilling program limited partners control a total of 5,000 barrels of U.S. crude oil per day. TOTAL has taken steps to trade this crude to increase supplies of U.S. crude oil at the Alma refinery.

It is TOTAL's policy that Hanover continue to structure, sell and manage drilling programs, and invest its own resources in additional drilling as well as the acquisition of reserves from the limited partners. These methods have proved successful in providing increased exploratory exposure for the Company and attractive opportunities for acquiring reserves. Hanover will continue the practice of spreading its risks and the risks of its programs' limited partners



HANOVER PETROLEUM CORPORATION DRILLING ACTIVITY

	12 Months 1976		
EXPLORATORY WELLS	Gross	Net to Hanover	Net to Hanover & Limited Partners
Oil	9	.91	4.58
Gas	5	.33	1.25
Dry	24	2.15	7.60
Total	38	3.39	13.43
Success ratio	37%	37%	43%
DEVELOPMENT WELLS			
Oil	43	9.48	14.13
Gas	17	1.95	3.44
Dry	26	3.76	7.83
Total	86	15.19	25.40
Success ratio	70%	75%	69%

both geographically and geologically.

Shortly after closing the merger, Hanover commenced the sale of its Series 14 and Series 15 drilling programs. Over $6.3 million was raised from investors, the highest level of public sales since 1972. The drilling programs' budgets, and Hanover's corporate development budget, resulted in an overall drilling exposure of approximately $13 million.

Hanover's major development activities during 1976 were centered in the R.K. Devonian field (see map) in Martin County, Texas and the Enfield Prospect in White County, Illinois.

At year-end 1976, 23 wells had been successfully completed in the R.K. Devonian field with five dry holes, and one well completed in a shallow formation. Gross production in the field increased rapidly during the year from approximately 1,100 barrels of oil per day to over 2,700 barrels of oil per day by December 1976. Net production to Hanover and its drilling programs is in excess of 600 barrels of oil per day. The areal extent of the R.K. Devonian field has not yet been determined, and a minimum of four wells will be drilled in 1977. Further drilling may take place depending upon success.

In 1976, Hanover engaged in its first successful venture in the Illinois Basin. The Company has a 50% working interest in the Enfield Prospect in White County, Illinois. Seven successful wells and three dry holes have been drilled on this prospect in 1976. Each well is expected to produce approximately 50 barrels of oil per day. Additional development drilling is planned for 1977 to define the limits of this field.

Hanover's exploratory activity in 1976 centered in the Series 13, Series 14 and Series 15 Programs.

A major discovery in the Series 13 Program was the Brown A-1 well located in Assumption Parish, Louisiana. This deep gas test was drilled to a depth of 18,282 feet. The well was completed in an upper zone and an initial test indicates a daily rate of flow of 2,000 MCF with 80 barrels of condensate. Hanover and certain Hanover programs control a 25% working interest in the well and 3,300 adjacent acres. An offset well will be drilled in 1977, to more completely evaluate deeper formations.

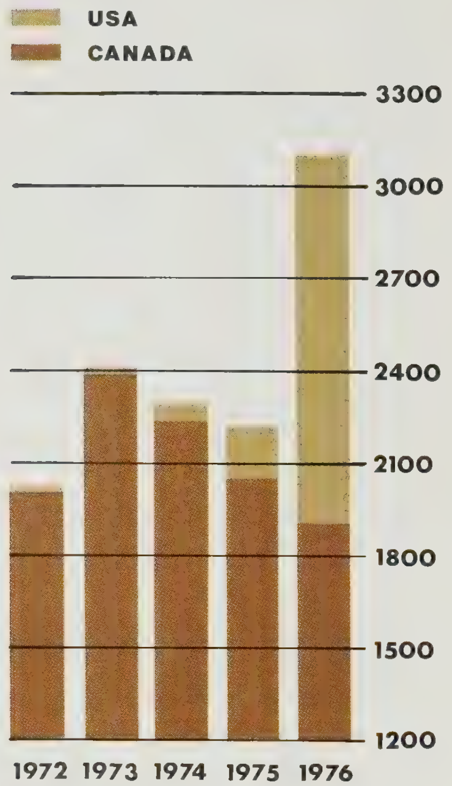
A significant discovery in the Series 14 Program is the Phillips #1 well located in Rusk County, Texas. This gas well tested 1,000 MCF per day at 7,250 feet. Studies are currently under way to evaluate the 1,600 acre position surrounding this well and a second well is currently drilling to confirm the discovery and test a deeper formation. The Series 14 Program has a 12.5% working interest in this prospect.

Another discovery well in the Series 14 Program was the Orr No. 1 in White County, Illinois. The initial well tested 80 barrels of oil per day at a depth of 3,500 feet and two successful offset wells have been drilled on this acreage. The Series 14 Program owns a 50% working interest in this prospect and two to three development wells are planned to establish the limits of the field.

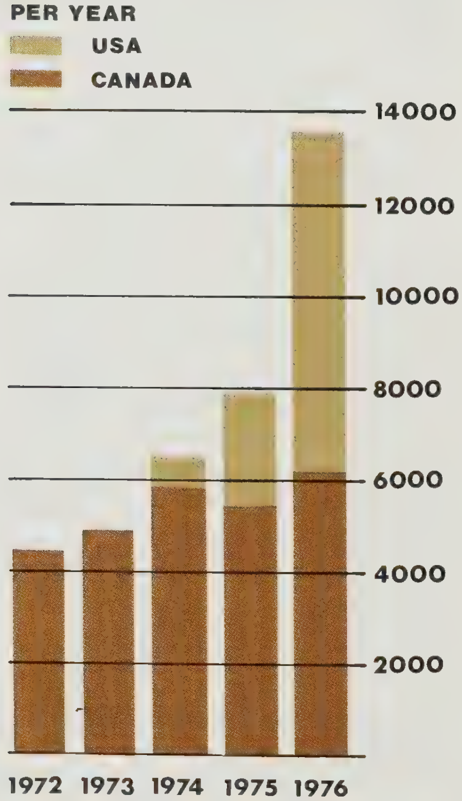
At year-end, Series 15 completed the Federal 1-30 well, a Minnelusa wildcat discovery in Campbell County, Wyoming. Initial tests indicated sustained production rates of 130 barrels of oil per day. The Series 15 Program has a 50% working interest in this prospect. A minimum of one additional confirmation well is planned for 1977.

production and reserves

OIL PRODUCTION
THOUSANDS OF BARRELS PER YEAR



NATURAL GAS SALES
MILLIONS OF CUBIC FEET PER YEAR



TOTAL's production of crude oil and condensate before royalties increased 40% in 1976 over the previous year, while gas sales before royalties increased 70%. The comparison is based on yearly figures which include Hanover Petroleum Corporation's production for eight months of 1976. On the basis of daily rates, crude production is up 59% and gas sales are up 97%.

Essentially due to proration imposed by the Canadian government, TOTAL's crude production in Canada decreased about 7% in 1976 from 1975, while TOTAL's gas sales increased approximately 14% as previous discoveries were turned into production.

In the United States, TOTAL's production of crude oil and gas, excluding production from Hanover Petroleum Corporation, increased in 1976 as additional wells were put on stream. This positive trend will continue in 1977 as 16 productive wells located in Michigan, Oklahoma and Texas currently await hook-up to production. TOTAL's crude oil production in the United States, excluding Hanover, increased by 70% and natural gas sales increased by 14%.

To a large extent, Hanover Petroleum Corporation contributed to the production increase last year. For the last eight months of 1976, Hanover's production averaged 3,679 barrels of crude oil per day and 18,210 MCF of natural gas per day.

In Canada, the average wellhead price of crude oil increased from $8.00 per barrel to $9.05 per barrel on July 1, 1976, and was raised again to $9.75 per barrel on January 1, 1977. The wellhead price of natural gas in Canada varies by province. In British Columbia, where no royalties are paid to the province, the 1976 wellhead price of "old" gas was $0.35 / MCF and the price of

CRUDE OIL PRODUCTION BEFORE ROYALTIES	1976		1975	
	Bbls.	BPD	Bbls.	BPD
Canada	1,900,554	5,193	2,043,755	5,599
United States (excl. Hanover)	306,900	839	180,880	496
Hanover Petroleum Corporation (*)	901,248	3,679	—	—
Total	3,108,702	9,711	2,224,635	6,095

NATURAL GAS SALES BEFORE ROYALTIES	1976		1975	
	MCF	MCFPD	MCF	MCFPD
Canada	6,202,000	16,950	5,418,000	14,845
United States (excl. Hanover)	2,917,000	7,970	2,565,000	7,027
Hanover Petroleum Corporation (*)	4,462,000	18,210	—	—
Total	13,581,000	43,130	7,983,000	21,872

(*) Production since merger date, May 1, 1976; daily rate for eight months

"new" gas was $0.55/MCF. In Alberta, the average wellhead price of gas, old and new, increased from $.96/MCF to $1.12/MCF on July 1, 1976, and was raised again to approximately $1.22/MCF on January 1, 1977. The rate of royalties paid to the province of Alberta is higher for old gas than for new gas, resulting in average net prices after royalties in 1976 of $0.71/MCF for old gas and $0.83/MCF for new gas.

In the U.S., where TOTAL, excluding Hanover Petroleum Corporation, produces "upper tier" oil only, the average wellhead price of crude oil in 1976 was $11.60 per barrel down $1.30 per barrel from 1975. This decrease resulted from the rollback in crude oil prices required by the Energy Policy and Conservation Act of December 1975, which took effect on February 1, 1976. In 1975, the price of "upper tier" oil was uncontrolled. Following the rollback, the wellhead price rose $0.07 per barrel per month through June 1976 and was frozen at that level for the remainder of 1976. On January 1, 1977 "upper tier" oil prices were rolled back another $0.20 per barrel to approximately $11.60 per barrel.

Hanover Petroleum Corporation produces approximately 30% "lower tier" and 70% "upper tier" and "stripper" oil. The average wellhead price of oil produced by Hanover in 1976 was $9.47 per barrel.

Natural gas produced by TOTAL in the United States, excluding Hanover, is sold on the intrastate market. The wellhead price of that gas is uncontrolled and was up $0.59/MCF in 1976 to an average of $1.34/MCF. Gas produced by Hanover is sold both on the interstate and intrastate markets and averaged $.89/MCF in 1976.

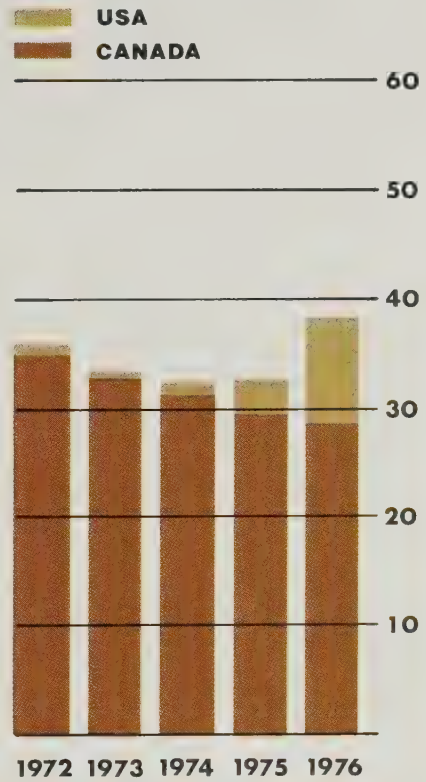
TOTAL's overall reserves of hydrocarbons, calculated before royalty, were up 17% for oil and 20% for natural gas at year-end 1976 as compared with 1975.

In Canada, remaining oil reserves at year-end were 28,581,000 barrels down 2.8% from 1975. Production exceeded newly discovered reserves in line with the general downward trend for the industry. Remaining natural gas reserves in Canada were 174,700,000 MCF, down 1.4% from 1975. Current reserve estimates exclude all probable reserves associated with the 1976 discoveries which are yet to be evaluated.

In the United States, oil reserves at year-end were 9,922,000 barrels, and natural gas reserves were 69,700,000 MCF. This threefold increase over 1975 is primarily due to the acquisition of Hanover Petroleum.

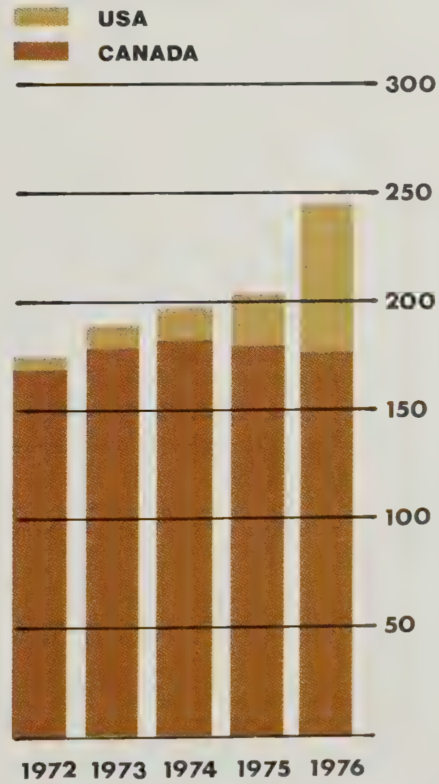
REMAINING PROVEN OIL RESERVES

MILLIONS OF BARRELS



REMAINING PROVEN GAS RESERVES

BILLIONS OF CUBIC FEET



"TRIPPING OUT", changing drill bit at Boman #1-34, Grand Traverse County, Michigan

CONSOLIDATED LAND HOLDINGS ON DECEMBER 31, 1976 (ACRES)

	Petroleum and Natural Gas Leases		Reservations, Permits, and Licenses		Total	
	Gross	Net	Gross	Net	Gross	Net
British Columbia	408,127	147,549	444,338	106,725	852,465	254,274
Alberta	1,114,951	625,051	345,292	245,927	1,460,243	870,978
Saskatchewan	75,868	36,668	—	—	75,868	36,668
Northwest Territories	82,111	54,972	1,041,684	327,765	1,123,795	382,737
Arctic	—	—	37,782	3,230	37,782	3,230
Labrador (Offshore)	—	—	28,480,537	1,424,026	28,480,537	1,424,026
Canada	1,681,057	864,240	30,349,633	2,107,673	32,030,690	2,971,913
Michigan	420,825	228,603	—	—	420,825	228,603
Texas	194,561	34,474	—	—	194,561	34,474
Louisiana	26,681	1,963	—	—	26,681	1,963
Rocky Mountain Area	1,310,377	344,964	—	—	1,310,377	344,964
All other states	594,740	182,212	—	—	594,740	182,212
U.S.	2,547,184	792,216	—	—	2,547,184	792,216
Total					34,577,874	3,764,129

refining

Robert R. Dean,
Vice President-Manufacturing,
Supply and Transportation

TOTAL's refinery operations in 1976 were the most successful in the Company's history. Crude runs through the Alma refinery exceeded 14 million barrels for the year, averaging 38,520 barrels per day. This represented approximately 900 barrels per day more crude charged than in 1975, the previous record year.

Refinery operating costs were held in line with those of 1975 while the volumes of high value gasoline and light fuels increased 2% above volumes produced in 1975. The volume of low value residual products was reduced 4% from the previous year.

In October, a major refinery

The capacity of the catalytic cracking unit was increased during the Alma refinery turnaround in October 1976

turnaround was conducted on budget and within a tight time frame. Part of the turnaround consisted of substantial modifications to the Fluid Catalytic Cracking and Alkylation Units, which resulted in a 20% increase in Cracking and Alkylation throughput. These capacity increases will lead to more efficient refining and we anticipate that crude runs will be increased by one million barrels to 15 million barrels during 1977.

The work completed in October 1976 was the first part of the $13,000,000 capital program announced previously. Field construction work is proceeding on the other phases of the program on schedule with the major portion of the project to be completed in the Fall of 1977. The final phase should be finished in the first quarter of 1978.

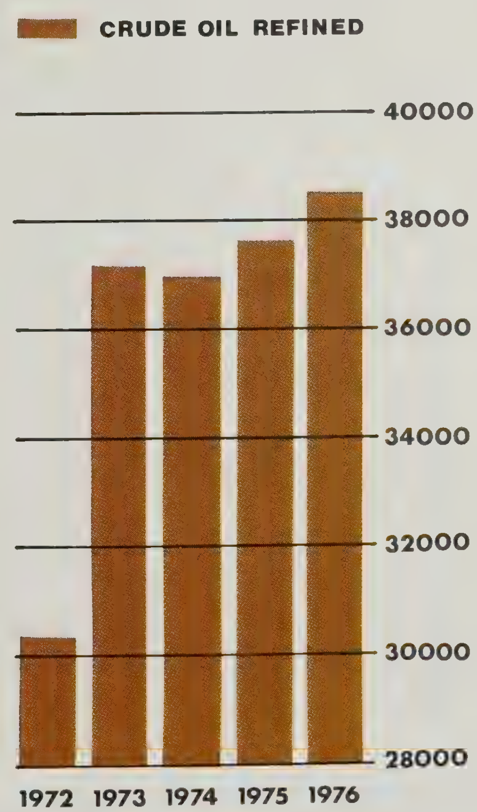
The completion of the entire project will result in the refinery's cracking capacity being increased by 37%, doubling the alkylation capacity, raising gasoline yield from the current 52% to approximately 65%, reducing energy consumption by 25% and

Overall view of the Alma refinery at night

reducing sulphur emissions below regulatory standards. These upgrading investments will allow the refinery to meet the gasoline lead phase down program, meet the increasing demand for lead-free gasoline and increase its contribution to earnings and cash flow.

Five new labor agreements were successfully negotiated with the Oil, Chemical and Atomic Workers International Union, which represents the TOTAL hourly employees of the Alma Refinery, two pipeline operations, terminal facilities and drivers. Economic settlements generally followed the national pattern established within the oil industry. The two-year agreements were again reached without work stoppages, thus continuing TOTAL's effective labor relations history.

CRUDE OIL REFINED
BARRELS PER DAY



supply and transportation

During 1976, TOTAL had to develop alternative sources of crude oil supply, as did other oil companies historically supplied with Canadian crude. This was caused by the decision of the Canadian government to phase out exports to the United States, in the face of depleting Canadian oil reserves.

TOTAL successfully converted to new supply sources. Canadian supplies which amounted to 25% of crude runs in early 1976 were essentially phased out by year-end. The new supplies originate, for the most part, from the United States with some foreign oil imported for exchange purposes. The purchase of Hanover Petroleum Corporation's reserves contributed to the replacement of Canadian crude.

The multi-tier crude pricing system in the United States led to increased complexities in the administration of price controls, as well as the crude cost equalization "entitlements" program, and the resulting cost structure of TOTAL's crude slate. Nevertheless, TOTAL's crude cost remained competitive. Average crude cost increased 9% in 1976 over 1975, due to the higher cost of imported oil, partially offset by the rollback of U.S. crude prices as required by the Energy Policy and Conservation Act of December 1975 (EPCA). The U.S. crude pricing system is currently governed by the provisions of EPCA which should remain in force through May 1979, unless modified by Congress.

In order to balance supply with TOTAL's increased retail gasoline sales, 3,785,000 barrels of gasoline were purchased from other refiners. A purpose of the refinery upgrading project in progress is to reduce our dependency on outside purchases through increased gasoline production.

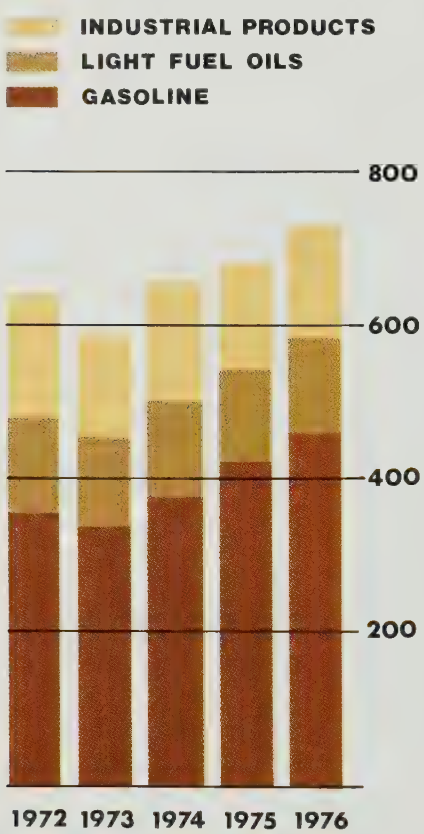
The modernization of TOTAL's crude oil pipeline system continued during 1976. All systems comprising TOTAL's subsidiary, Michigan-Ohio Pipeline Corporation, were electrically surveyed and cathodically protected, and all pumping stations in this system were automated. The entire system is now automatically controlled from Alma, Michigan. This program involved the construction of a new crude collection and pumping station at Farwell, Michigan which was fully operative in December 1976. This station is capable of receiving 60 crude oil trucks a day or 20,000 barrels per day and automatically transferring the crude to the Alma refinery by pipeline. Crude collected at this station is purchased from fields in north central Michigan.

TOTAL's product terminal in Traverse City, Michigan is located on Lake Michigan and supplied via tankers operating on the Great Lakes

marketing

John E. Fawke,
Vice President-Marketing

REFINED PRODUCT SALES
MILLIONS OF GALLONS



1976 was a record year for overall sales volumes, which increased by 7% from the previous year. This increase was reflected in all the principal product categories, with gasoline up by 8.8%, fuel oil up by 4.5% and industrial products up by 3.8%. The accompanying chart shows that sales have increased steadily over the five-year period since 1972 with the exception of 1973, when availability of supply was limited due to the oil embargo.

Margins for all products recovered at mid-year from the low levels of the first four months and remained satisfactory thereafter. Nevertheless, margins were lower than in 1975 as a more actively competitive climate prevailed in the market during the year. Price controls and allocation regulations for fuel oil and residual fuels were removed in 1976, leaving gasoline, propane and commercial jet fuels as the only controlled products at year-end.

By the end of the year, the program of converting TOTAL's Detroit service stations into low-cost, high-volume, gasoline-only outlets was essentially

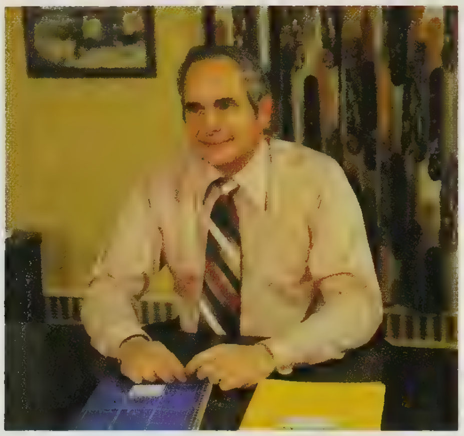
completed. This program, which commenced in 1973, has been particularly successful both from the point of view of the operating costs and the sales volumes per service station. The program to convert the higher volume BEST brand service stations into self-service operations was also completed and is proving equally successful. The BEST brand stations are located mostly in Michigan, outside of Detroit.

As a result of these actions, we believe that our retail network is in a good position to face current and future competition.

Our objective in 1977 is to sell the entire refinery production in our traditional marketing area, and to maximize profit generated from our gasoline retail network. To achieve this result, purchases of gasoline are currently necessary to meet our sales requirements. These outside gasoline purchases may be reduced in 1978 when the refinery upgrading project is completed and additional quantities of gasoline are manufactured at TOTAL's Alma refinery.

A remodeled TOTAL station located in the suburbs of Detroit, Michigan

management discussion and analysis



Paul H. Gutknecht,
Vice President-
Finance and Treasurer

Financial policy

The primary goal of TOTAL's financial policy is to maintain a flexible financing structure. Such flexibility ensures that operations and capital investment programs continue uninterrupted, while seeking to obtain funds from the capital markets when circumstances are most favorable.

Borrowing funds for profitable investment in refining and marketing operations or for the acquisition of oil and gas reserves is considered to be in the interest of the shareholders. The leverage possible from the income tax deductibility of interest expense allows shareholders to earn more dollars on the same equity investment. Management expects that TOTAL's ratio of debt to debt plus equity may increase in the future.

Discussion and Analysis of Summary of Operations

This discussion and analysis relates to the financial portion of the Summary of Operations on the following page of this report. The various sections of the Summary show funds provided by operations, capital expenditures, revenues, expenses and contribution to net income with detail by operating division for the five years from 1972 through 1976. TOTAL has two divisions— Exploration and Production operates in Canada and the United States, and Refining and Marketing operates in the United States, principally in Michigan. Administrative expenses directly attributable to one of the operating divisions are charged to that division. Interest and income tax expenses, other income and certain of the administrative expenses are incurred at the corporate level and, accordingly, are not allocated to the divisions.

Funds provided by operations for the Exploration and Production Division increased in each of the years presented in the Summary. The primary contribution to this trend has been increasing prices. In late 1973 the Canadian government initiated crude oil price controls at the wellhead. Since that time the government has allowed periodic upward price adjustments but the net price to the producer remains below net prices in the U.S. These regulations are intended to insulate the Canadian consumer against the rapidly rising world oil prices. The result of these regulations has been a gradual rise in prices rather than the sudden spurt in world oil prices in late 1973 and 1974 with, relatively, a leveling-off thereafter. During 1975 and 1976 TOTAL's Michigan production increased substantially. This production is sold at prices higher than those allowed in Canada which further added to the average realizations. Canadian production volumes have suffered from curtailments required by provincial proration programs in recent years.

On April 30, 1976, Total acquired Hanover Petroleum Corporation. Hanover's activities for the last eight months of the year accounted for more than half of the increase in funds provided by the Division.

The following table is an analysis of the increases in funds provided by the Exploration and Production operations in the two most recent years. (In thousands of dollars.)

	Canada	U.S. (Excluding Hanover)	Hanover	Total
Funds provided by operations in 1974	$ 8,080	$ 896		$ 8,976
Increase (decrease) in 1975 due to:				
Increased sales revenues (net of royalties) due to:				
Sales quantities	(561)	1,610		1,049
Sales prices	2,273	739		3,012
	1,712	2,349		4,061
Increased operating and administrative expenses	(255)	(342)		(597)
Total increase	1,457	2,007		3,464
Funds provided by operations in 1975	9,537	2,903		12,440
Increase (decrease) in 1976 due to:				
Increased sales revenues (net of royalties) due to:				
Sales quantities	(340)	2,343	$10,375	12,378
Sales prices	3,171	1,313	—	4,484
	2,831	3,656	10,375	16,862
Increased operating and administrative expenses	(446)	(823)	(3,503)	(4,772)
Total increase	2,385	2,833	6,872	12,090
Funds provided by operations in 1976	$11,922	$5,736	$ 6,872	$24,530

Depreciation and depletion attributable to the Exploration and Production Division, which is deducted from the amounts in the table above in the determination of operating income, increased by $5,053,000 and $375,000 in 1976 and 1975, respectively. This expense increases as production quantities and/or capital costs increase. Depletion expense also is affected by the higher cost to find and develop mineral reserves. The acquisition of Hanover and the resulting increase in facilities, production volumes and depletion rate per barrel caused a substantial portion of the large increase in 1976. Depletion expense for 1976 was recorded at $2.06 per equivalent barrel of production. The 1975 rate was $1.63. This rate is computed by dividing proven reserves into the accumulated undepleted cost of exploration, development and reserve acquisitions. Natural gas reserves are included in the calculations by converting cubic feet to oil barrel equivalents based on their relative sales values.

The operations of the Refining and Marketing Divisions are greatly affected by fluctuating market conditions and government regulations. The Division's operating income and funds provided by operations have varied widely over the past five years principally because of changing margins. Except for 1973, sales volumes have gradually increased over the

period. During this period, particularly in 1974 and the last quarter of 1973, pricing for the entire industry progressively moved upward to new levels. 1973 and early 1974 was a period of relatively short supply and stable margins. Price competition returned to the refined products market in the latter part of 1974 and continued through mid 1975. By the end of 1975 prices began another downward trend. The demand of the 1976 summer driving season caused a partial recovery that was sustained through the end of the year, although at margins less than those generally realized in 1975.

Funds provided by operations for 1974 were significantly below the other recent years, although, as noted above, this was not a particularly bad year for sales prices. In late 1973 the Federal Energy Administration created the "two-tier" crude oil price system by restricting the price at which "old" oil could be sold. Because the crude oil available to TOTAL included a ratio of "old" oil far below that of its chief competitors, TOTAL was unable to compete profitably at the market price levels in 1974. The crude oil cost equalization program, introduced in January 1975, substantially alleviated this inequity. Costs for 1974 are $10,550,000 higher under the last-in, first-out inventory cost method adopted in that year than they otherwise would have been.

The following table provides detail of the increase in funds provided by the Refining and Marketing Division for 1975 and 1976. (In thousands of dollars.)

Funds provided by operations in 1974	$ 3,451
Increase (decrease) in 1975 due to:	
Increased revenues—	
Increased sales through company-operated service stations due to:	
Sales quantities	11,950
Sales prices	2,103
Other sales increases due to:	
Sales quantities	(2,537)
Sales prices	14,784
	26,300
Increased cost of purchased crude oil, products and merchandise due to—	
Purchase quantities	(6,822)
Purchase prices	(1,695)
	(8,517)
Increased operating, marketing and administrative expenses—	
Direct expenses at company-operated service stations	(1,327)
Other	(2,714)
	(4,041)
Total increase	13,742
Funds provided by operations in 1975	17,193
Increase (decrease) in 1976 due to:	
Increased revenues—	
Increased sales through company-operated service stations due to:	
Sales quantities	12,945
Sales prices	4,172
Other sales increases due to:	
Sales quantities	4,519
Sales prices	9,733
	31,369
Increased cost of purchased crude oil, products and merchandise due to—	
Purchase quantities	(15,218)
Purchase prices	(18,450)
	(33,668)
Increased operating, marketing and administrative expenses—	
Direct expenses at company-operated service stations	(2,097)
Other	(1,320)
	(3,417)
Total decrease	(5,716)
Funds provided by operations in 1976	$11,477

The changes in revenues and expenses for company-operated service stations are segregated in the above table due to the growing importance of these operations over the two year period and because of the resulting impact on operating expenses. The majority of these increases are related to the program to convert Detroit service stations to high-volume, gasoline only outlets.

Operating, Marketing and Administrative expenses, other than those associated with company-operated service stations, increased by 9% in 1975 and 4% in 1976. Wages and electrical energy costs throughout the Division were major contributors to the 1975 increase. Higher refinery materials and additive expenses offset a decrease in refinery maintenance from the abnormally high level in 1974. The 1976 increase approximates the increase in refinery energy expense. This expense increases as refinery activity increases and as a major turnaround approaches. Prior to October 1976, there had not been such a turnaround since 1974.

Other income (expense) in 1975 decreased from 1974 because of less interest income on short-term investments and unfavorable results from sales of properties in 1975. Interest income increased in 1976 over 1975 but remained less than the 1974 level. Gains were realized on property disposals in 1976.

The increase in interest expense in 1976 results, principally, from the increase in outstanding long-term debt. Approximately $47 million in new debt was incurred in the acquisition of Hanover. The 1975 increase was also partially the result of new borrowings.

Income tax expense tends to vary directly with net income before deduction for income tax expense. The Canadian effective tax rate decreased in 1976 after a slight decrease in 1975 from the 1974 rate. Investment tax credits in the United States increased in 1975 over 1974 and remained at the 1975 level in 1976.

Market and Dividend Information

The principal markets for each class of the Company's securities entitled to vote at the Annual Meeting are the Toronto Stock Exchange in Canada and the American Stock Exchange in the United States. A dividend of 17½¢ (U.S.) per share was paid on the Preferred Series A shares for each quarterly period within the two most recent fiscal years. The high and low sales prices of the Common and Preferred Series A shares of the Company during such quarterly period were as follows:

TORONTO STOCK EXCHANGE

		Common (TPN)				Preferred Series A (TPN.PR.A.)			
	Quarter	1	2	3	4	1	2	3	4
1975	High	6¼	8	7⅞	5¾	13⅛	16⅛	15¾	11¾
	Low	4	5¼	5⅜	4.45	9	11¼	11½	10¼
1976	High	6⅜	8	8	7⅞	14⅛	16	16	15⅞
	Low	5	6⅛	6¼	5¼	11¼	12⅜	12½	11½

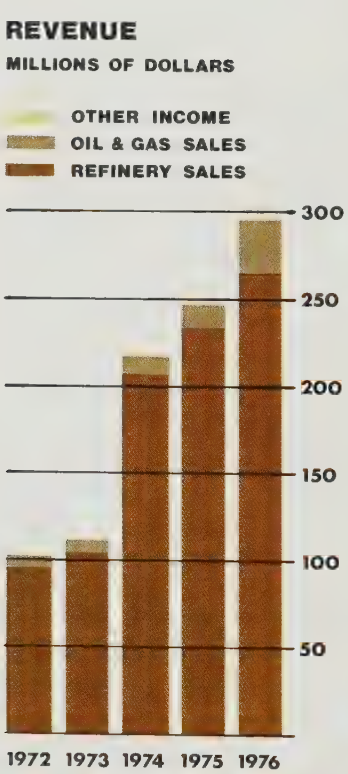
AMERICAN STOCK EXCHANGE

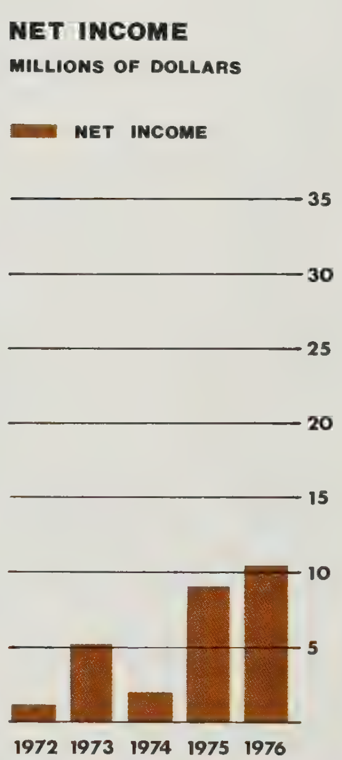
		Common (TPN)				Preferred Series A (TPN.PR.A.)			
	Quarter	1	2	3	4	1	2	3	4
1975	High	6¼	8	8⅛	5½	12⅞	15½	16	11½
	Low	3 15/16	5⅛	5¼	4⅜	8⅞	11	11	10⅛
1976	High	6⅝	8¼	8¼	7¾	13⅝	16½	16⅝	15¾
	Low	4 15/16	6⅜	6⅜	5¼	10⅞	12½	13	11⅞

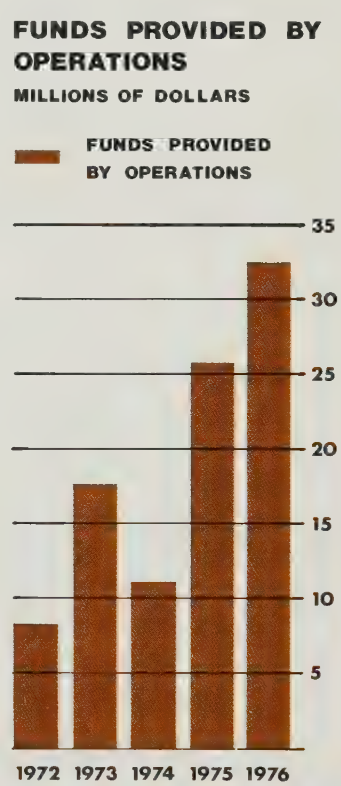
summary of operations

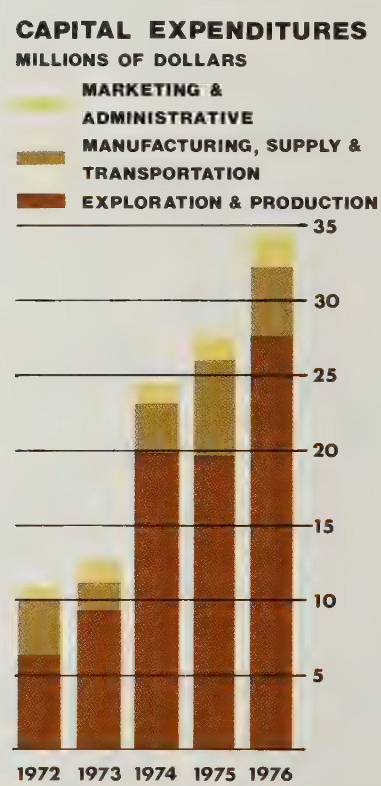
Operations

EXPLORATION AND PRODUCTION	1976	1975	1974	1973	1972
Crude oil and condensate (bbls.) — Canada					
Proven reserves at year-end	28,581,000	29,409,000	31,167,000	32,637,000	34,778,000
Production during year	1,900,554	2,043,755	2,237,483	2,398,217	2,009,402
Crude oil and condensate (bbls.) — United States					
Proven reserves at year-end	9,922,000	3,505,000	1,195,000	792,000	1,081,000
Production during year	1,208,148	180,880	70,051	14,890	19,209
Hanover Petroleum included above	901,248	—	—	—	—
Natural gas (millions of cubic feet) — Canada					
Proven reserves at year-end	174,700	177,163	180,015	176,984	167,015
Sales during year	6,202	5,418	5,825	4,883	4,438
Natural gas (millions of cubic feet) — United States					
Proven reserves at year-end	69,700	26,696	17,290	12,210	8,280
Sales during year	7,379	2,565	645	—	—
Hanover Petroleum included above	4,462	—	—	—	—
Gross land holdings (acres) — Canada	32,030,690	32,566,402	33,530,527	35,671,636	38,354,588
Gross land holdings (acres) — United States	2,547,184	1,463,974	1,273,342	384,604	355,303
Net land holdings (acres) — Canada	2,971,913	3,241,492	3,794,671	4,058,812	4,093,242
Net land holdings (acres) — United States	792,216	507,708	409,012	207,885	197,525
REFINING AND MARKETING:					
Crude oil refined (bbls.)	14,098,250	13,728,523	13,493,860	13,566,316	11,091,413
Manufactured gasoline (bbls.)	7,284,786	7,213,452	6,568,476	7,234,849	4,892,496
Refined product sales (bbls.)	17,478,095	16,328,738	15,753,571	14,122,357	15,377,590
Gasoline sales (bbls.)	10,986,429	10,093,595	9,065,690	8,129,929	8,566,833
Service station owned or leased long term	204	220	233	250	312
Total outlets	691	714	699	685	913









Financial

(U.S. Dollars)

	1976	1975	1974	1973	1972
Funds Provided by Operations: (i)					
Exploration and Production	$ 24,530,000	$ 12,440,000	$ 8,976,000	$ 6,318,000	$ 4,523,000
Refining and Marketing	11,477,000	17,193,000	3,451,000	15,426,000	6,431,000
Other income	2,872,000	395,000	2,132,000	489,000	748,000
Unallocated administrative expenses	(1,239,000)	(1,234,000)	(944,000)	(899,000)	(691,000)
Interest expense	(6,207,000)	(3,109,000)	(2,601,000)	(3,767,000)	(3,429,000)
Refundable income taxes	1,000,000	—	—	—	667,000
	$ 32,433,000	$ 25,685,000	$ 11,014,000	$ 17,567,000	$ 8,249,000
Summary of Earnings:					
Revenue:					
Net sales of refined products	$264,472,000	$233,103,000	$206,803,000	$103,934,000	$94,912,000
Net sales of crude oil and natural gas	31,374,000	14,512,000	10,451,000	7,611,000	5,506,000
Other income (expenses)	2,872,000	395,000	2,132,000	(944,000)	748,000
	298,718,000	248,010,000	219,386,000	110,601,000	101,166,000
Costs and Expenses:					
Purchased crude oil, products and merchandise	211,110,000	177,442,000	168,925,000	61,001,000	61,773,000
Operating, marketing and administrative—					
Exploration and Production	6,844,000	2,072,000	1,475,000	1,293,000	983,000
Refining and Marketing	41,885,000	38,468,000	34,427,000	27,507,000	26,708,000
Depreciation, depletion and amortization—					
Exploration and Production	10,049,000	4,996,000	4,621,000	3,682,000	2,718,000
Refining and Marketing	3,848,000	3,841,000	3,084,000	3,248,000	3,259,000
Unallocated administrative	1,239,000	1,234,000	944,000	899,000	691,000
Interest	6,207,000	3,109,000	2,601,000	3,767,000	3,429,000
Income taxes	7,090,000	7,850,000	1,441,000	4,071,000	500,000
	288,272,000	239,012,000	217,518,000	105,468,000	100,061,000
Net income	$10,446,000	$8,998,000	$1,868,000	$5,133,000	$1,105,000
Net income per share	$.82	$.70	$.10	$.51	$.03
Operating Income: (ii)					
Exploration and Production	$ 14,481,000	$ 7,444,000	$ 4,355,000	$ 2,636,000	$ 1,805,000
Refining and Marketing	7,629,000	13,352,000	367,000	12,178,000	3,172,000
Unallocated administrative expense, interest, income taxes and other	(11,664,000)	(11,798,000)	(2,854,000)	(9,681,000)	(3,872,000)
Net income	$10,446,000	$8,998,000	$1,868,000	$5,133,000	$1,105,000
Capital Expenditures: (iii)					
Exploration	$ 25,051,000	$ 16,609,000	$ 18,490,000	$ 8,633,000	$ 5,525,000
Production	2,613,000	3,239,000	1,419,000	612,000	752,000
Manufacturing	3,912,000	1,635,000	1,734,000	1,184,000	2,455,000
Supply and Transportation	736,000	4,573,000	1,515,000	883,000	1,264,000
Marketing	1,238,000	1,331,000	1,149,000	1,009,000	886,000
Administrative	971,000	243,000	247,000	371,000	23,000
	$ 34,521,000	$ 27,630,000	$ 24,554,000	$ 12,692,000	$ 10,905,000
Financial Statistics:					
(Long-term debt) ÷ (long-term debt + shareholders' equity)	.37	.24	.19	.20	.37
Shareholders' equity	$117,144,000	$105,206,000	$ 97,054,000	$ 96,029,000	$ 69,845,000
Shareholders' equity per share (iv)	$8.95	$7.82	$7.03	$6.92	$6.44
Number of registered shareholders	7,317	7,450	7,511	8,091	7,112

NOTES:

(i) Net income plus income charges not affecting working capital in the year. Refer to Consolidated Statements of Changes in Financial Position for other sources and uses of funds.

(ii) Funds provided by operations for the division reduced by attributable depreciation, depletion and amortization.

(iii) Excludes $47,611,000 related to the acquisition of Hanover Petroleum Corporation in 1976.

(iv) Shareholders' equity in excess of par value of preferred shares divided by common shares outstanding at the end of the year.

REGISTRARS
THE ROYAL TRUST COMPANY
Calgary, Regina, Winnipeg,
Toronto and Montreal, Canada
MORGAN GUARANTY TRUST COMPANY OF NEW YORK
New York, N. Y.

TRANSFER AGENTS
MONTREAL TRUST COMPANY
Calgary, Regina, Winnipeg,
Toronto and Montreal, Canada
MORGAN GUARANTY TRUST COMPANY OF NEW YORK
New York N. Y.

AUDITORS
PRICE WATERHOUSE & CO.

EXCHANGE LISTINGS
TORONTO STOCK EXCHANGE
MONTREAL STOCK EXCHANGE
AMERICAN STOCK EXCHANGE

FORM 10-K
Copies of the Company's annual report to the Securities and Exchange Commission on Form 10-K are available without charge upon request to the Company at East Superior Street, Alma, Michigan 48801, U.S.A.

ANNUAL MEETING
Shareholders are cordially invited to attend TOTAL's Annual Meeting to be held this year at the Harbour Castle Hotel, One Harbour Square, Toronto, Ontario M5J 1A6 on Wednesday, April 20, 1977 at 10:30 a.m.

Consolidated Statements of Income and Retained Earnings

(United States Dollars)

INCOME	Year Ended December 31	
	1976	1975
Revenue:		
Net sales of refined products	$264,472,000	$233,103,000
Net sales of crude oil and natural gas	31,374,000	14,512,000
Other income	2,872,000	395,000
	298,718,000	248,010,000
Expenses:		
Purchased crude oil, products and merchandise	211,110,000	177,442,000
Operating	30,190,000	25,398,000
Marketing and administrative	19,778,000	16,376,000
Depreciation, depletion and amortization	13,897,000	8,837,000
Interest on long-term debt	6,014,000	2,973,000
Other interest	193,000	136,000
Income taxes (Notes 1 and 5)	7,090,000	7,850,000
	288,272,000	239,012,000
Net income for the year	$ 10,446,000	$ 8,998,000
Net income per share (Note 7)	$.82	$.70

RETAINED EARNINGS	1976	1975
Balance, beginning of year	$ 23,951,000	$ 15,799,000
Net income for the year	10,446,000	8,998,000
	34,397,000	24,797,000
Dividends on Series A Preferred shares	845,000	846,000
Balance, end of year	$ 33,552,000	$ 23,951,000

Total Petroleum (North America) Ltd. and Subsidiaries

Consolidated Balance Sheets

(United States Dollars)

ASSETS

	December 31	
	1976	**1975**
CURRENT ASSETS:		
Cash	$ 5,624,000	$ 6,670,000
Short-term investments	3,711,000	11,472,000
Accounts and notes receivable, less allowance for doubtful accounts of $443,000 (1975—$614,000)	23,250,000	16,461,000
Inventories of purchased crude oil and products (Note 1)	15,835,000	17,057,000
Inventories of merchandise, materials and supplies (Note 1)	3,469,000	3,429,000
Prepaid expenses and other	5,963,000	1,706,000
	57,852,000	56,795,000
LONG-TERM RECEIVABLES AND OTHER ASSETS:		
Notes receivable	2,843,000	1,968,000
Other assets and deferred charges	202,000	227,000
	3,045,000	2,195,000
PROPERTY, PLANT AND EQUIPMENT (Notes 1, 2 and 3)	263,234,000	186,961,000
Less—Accumulated depreciation, depletion and amortization	59,260,000	50,658,000
	203,974,000	136,303,000
	$264,871,000	$195,293,000

APPROVED ON BEHALF OF THE BOARD:

J. A. Glaeville Director

Director

Consolidated Balance Sheets

(United States Dollars)

LIABILITIES, DEFERRED CREDITS AND SHAREHOLDERS' EQUITY

	December 31 1976	December 31 1975
CURRENT LIABILITIES:		
Accounts and notes payable	$ 33,814,000	$ 26,979,000
Accrued taxes	4,352,000	3,194,000
Other accrued liabilities	1,242,000	1,695,000
Current portion of long-term debt (Note 4)	9,840,000	5,819,000
	49,248,000	37,687,000
LONG-TERM DEBT (Note 4)	69,579,000	32,956,000
DEFERRED CREDITS:		
Deferred income tax provision	27,420,000	17,675,000
Deferred production income and other	1,480,000	1,769,000
SHAREHOLDERS' EQUITY:		
Capital Stock (Note 6)		
Authorized—		
5,000,000 Preferred shares of $20 (U.S.) par value each, issuable in series, of which 1,303,000 shares have been designated as $.70 (U.S.) Non-Cumulative Preferred shares, Convertible Series A		
25,000,000 Common shares of the par value of $1 (Can.)		
Outstanding—		
1,208,009 Series A Preferred shares (1975—1,208,009)	24,160,000	24,160,000
10,388,201 Common shares (1975—10,368,701)	9,880,000	9,860,000
Contributed surplus (Note 6)	49,552,000	47,235,000
Retained earnings	33,552,000	23,951,000
	117,144,000	105,206,000
COMMITMENTS (Note 9)		
	$264,871,000	$195,293,000

Consolidated Statements of Changes in Financial Position

(United States Dollars)

	Year Ended December 31	
	1976	1975
Funds were provided by:		
Operations—		
Net income for the year	$ 10,446,000	$ 8,998,000
Income charges not affecting working capital in the year:		
Depreciation, depletion and amortization	13,897,000	8,837,000
Deferred income taxes	8,090,000	7,850,000
Total provided by operations	32,433,000	25,685,000
Additional long-term borrowings (Note 4)	49,208,000	16,866,000
Proceeds from sales of future production	1,740,000	432,000
Sales of properties	564,000	2,836,000
Issuance of equity securities	2,337,000	—
Other	605,000	—
Total funds provided	86,887,000	45,819,000
Funds were used for:		
Capital expenditures—		
Petroleum and natural gas interests and production equipment (Note 3)	75,156,000	19,848,000
Refining, marketing and transportation	5,886,000	7,539,000
Other	1,090,000	243,000
Long-term debt paid or reclassified to current liabilities	12,585,000	6,395,000
Dividends paid	845,000	846,000
Reduction of deferred production income	1,829,000	1,925,000
Other	—	216,000
Total funds used	97,391,000	37,012,000
Increase (decrease) in working capital	$ (10,504,000)	$ 8,807,000
Changes in components of working capital:		
Working capital, beginning of year	$ 19,108,000	$ 10,301,000
Increase (decrease) in current assets:		
Cash and short-term investments	(8,807,000)	4,596,000
Accounts and notes receivable	6,789,000	(10,102,000)
Inventories	(1,182,000)	386,000
Prepaid expenses and other	4,257,000	(1,008,000)
	1,057,000	(6,128,000)
(Increase) decrease in current liabilities:		
Accounts payable and other accrued liabilities	(6,382,000)	17,953,000
Accrued taxes	(1,158,000)	(197,000)
Current portion of long-term debt	(4,021,000)	(2,821,000)
	(11,561,000)	14,935,000
Working capital, end of year	$ 8,604,000	$ 19,108,000

1. ACCOUNTING POLICIES:

The significant accounting policies followed by the Company and its subsidiaries are presented here to assist the reader in reviewing the financial information contained in this report.

The consolidated financial statements include the accounts of all subsidiaries.

The Company presents the consolidated financial statements in United States dollars because the majority of the transactions, and the major portion of the working capital and long-term debt of the consolidated companies, are in that currency. Canadian assets and liabilities representing cash and amounts owing to or by the Company are translated at the rate of exchange in effect at the end of the period. Other assets (such as inventories and property, plant and equipment) and deferred credits are translated at historical rates. Operating results for the period are translated at the monthly average rate of exchange during the year; depreciation, depletion and amortization included in operating results are translated at historical rates. Currency translation gains and losses, which are not material, are included in net income.

Inventories are valued at the lower of cost or net realizable value. Cost of inventories of crude oil and refined products is determined by the last-in, first-out method. Cost of inventories of merchandise, materials and supplies is determined by the first-in, first-out method with respect to merchandise and by the average cost method for materials and supplies.

Property, plant and equipment is carried at cost.

All costs of exploring for and developing oil and gas reserves are capitalized and charged to operations over the life of estimated future production (proven reserves) on the unit-of-production method. Proceeds from disposals are applied in full against such costs.

Depreciation and amortization are provided using the straight-line method based on estimated useful lives of assets.

Income taxes included in the consolidated financial statements are computed on the basis of (Reference is made to Note 5 for further details):

(i) not providing for taxes which would be payable upon transfer of undistributed earnings of subsidiaries since management believes that either such earnings will not be transferred in the foreseeable future or that no tax expense would be incurred because of available credits or deductions;

(ii) providing deferred taxes under the tax allocation method of accounting for income taxes whereby the provision for income taxes each year is computed on the basis of depreciation, depletion and certain other charges recorded in the accounts rather than the related amounts claimed as deductions in the companies' tax returns.

Investment tax credits are applied as a reduction of income tax expense in the period earned.

Excise taxes collected from customers are excluded from the Consolidated Statements of Income.

Sales of purchased crude oil are deducted from the related purchases in the Consolidated Statement of Income.

Pension plans cover substantially all of the Company's employees. Current cost and accruals for prior service costs (accrued over periods from 21 to 30 years) are funded currently.

---

2. ACQUISITION OF HANOVER PETROLEUM CORPORATION:

The Company, through a subsidiary, acquired Hanover Petroleum Corporation on April 30, 1976. Hanover is engaged in exploring for and developing oil and gas properties and organizing and managing private and public drilling programs.

In exchange for outstanding shares the former Hanover shareholders received the aggregate of $17,395,000 cash, $17,395,000 of subordinated 11½% Guaranteed Sinking Fund Debentures (see also Note 4) and warrants (valued by the Company at

$2,242,000) to purchase 1,630,749 of the Company's Common shares for $10.00 per share. At the election of each shareholder, they also received either an additional $1.25 per share in cash or a royalty interest in certain properties. A total of $992,000 in cash was paid by the Company pursuant to this election. The cost of the assets acquired, with cost being determined by the above mentioned payments to the previous shareholders, acquisition expenses incurred of $1,900,000 and liabilities assumed of $16,564,000, was attributed to the various assets based on fair market values.

The consolidated financial statements include Hanover's balance sheet at December 31, 1976 and the results of its operations for the eight months then ended. The pro forma information below gives effect to the acquisition, which is treated for accounting purposes as a purchase, assuming the acquisition had been consummated at the beginning of the respective periods (unaudited).

	1976	1975
Revenue:		
As reported herein	$298,718,000	$248,010,000
Pro forma adjustment	4,314,000	11,450,000
	$303,032,000	$259,460,000
Net income:		
As reported herein	$ 10,446,000	$ 8,998,000
Pro forma adjustment	(9,000)	(884,000)
	$ 10,437,000	$ 8,114,000
Net income per share:		
As reported herein	$.82	$.70
Pro forma adjustment	—	(.07)
	$.82	$.63

3. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment classified by functional groupings is as follows (see also Note 4 for debt secured by property):

	1976	1975
Petroleum and natural gas interests (1)	$167,523,000	$103,623,000
Production equipment (1)	16,127,000	7,527,000
Refining	26,141,000	22,748,000
Marketing	33,899,000	33,965,000
Supply and transportation	15,150,000	15,442,000
Other	4,394,000	3,656,000
	263,234,000	186,961,000
Less—accumulated depreciation, depletion and amortization (2)	59,260,000	50,658,000
	$203,974,000	$136,303,000

(1) The current year increase includes approximately $47,500,000 related to the acquisition of Hanover Petroleum Corporation effective April 30, 1976.

(2) Including accumulated depletion related to petroleum and natural gas interests of $27,245,000 and $20,754,000 at December 31, 1976 and 1975, respectively.

4. LONG-TERM DEBT:

The following summarizes the consolidated long-term debt:

Notes payable in monthly installments aggregating $405,000 to October 1977, $660,000 from November 1977 to October 1979, and reduced amounts thereafter to May 1983 plus interest at prime rate plus ½% to ¾% (certain oil and gas properties pledged)	$36,972,000
Guaranteed 11½% Sinking Fund Debentures due December 31, 1990 (subordinated)	17,334,000
First real estate mortgage notes due in quarterly installments of $125,000 in 1977 and $175,000 from 1978 to 1982 at prime rate plus 1%	4,000,000
Notes maturing at $400,000 quarterly from March 1977 to June 1978 and $500,000 in September and December 1978 at prime rate plus 1½%	3,400,000
Note payable on September 30, 1979 at prime rate plus 1½%	4,000,000
Other secured debt at 4% to 9¼%	9,463,000
Other debt, at prime rate plus ½% and 1%	4,250,000
	79,419,000
Less—current maturities	9,840,000
	$69,579,000

Minimum annual maturities of long-term debt for the next five years are as follows:

1977—$ 9,840,000
1978—$12,447,000
1979—$14,633,000
1980—$ 8,590,000
1981—$ 9,281,000

In connection with the acquisition of Hanover (Note 2), the Company incurred new borrowings aggregating $46,795,000. This amount includes $9,400,000 assumed from the predecessor company, $20,000,000 to provide funds for the cash payments to the previous shareholders and for acquisition expenses, and the debentures issued to the previous shareholders. The debentures are payable by a subsidiary and guaranteed as to payment of principal and interest (on a subordinated basis) by the Company. The sinking fund provisions require annual payments sufficient to retire 10% of the outstanding principal balance from December 1981 through December 1988 with the remaining balance due on December 31, 1990.

At December 31, 1976 the Company or its subsidiaries had unused commitments from various banks for future borrowings aggregating $18,600,000. Borrowings under such agreements would be at interest rates of ½ of 1% above prime. Commitment fees on the unused available credit are ½ of 1%. Under terms of the commitment agreements, $10,600,000 will expire in October 1977 and $8,000,000 in June 1978.

The Company has agreed to maintain bank deposit balances of $1,500,000 in connection with borrowing agreements.

5. INCOME TAXES:

Under Canadian income tax law, most exploration and development expenditures, including resource property acquisition costs, are deductible on various bases which generally have the effect of permitting such deductions to be made for tax purposes in advance of their being charged off in the books. Capital cost allowances for depreciable assets are also deductible in advance of depreciation charged in the accounts. Tax laws in the United States contain provisions which may have a similar effect.

As explained in Note 1, provision has been made in the accounts for the taxes deferred as a result of such deductions exceeding expenses charged in the income statement.

Investment tax credits are applied as a reduction of the tax expense, thereby reducing the expense to an amount below the statutory tax rate. Credits and special allowances in Canada similarly reduce taxes otherwise payable. Royalty and other payments to governments are not deductible for Canadian federal income tax purposes.

Income tax expense for 1976 is net of a $1,000,000 Small Explorer's Credit currently receivable from the Province of Alberta.

At December 31, 1976 the Company had the following approximate deductions and credits available to reduce tax payments which would otherwise be required in future years:

Canada	
Exploration and development expenditures	$21,700,000
Capital cost allowance	2,500,000
Depletion allowance	10,700,000
United States	
Tax operating loss	10,500,000
Investment tax credits (including $750,000 earned in 1976 and $700,000 in 1975)	1,700,000

Upon utilization, the benefits of these carryforwards will be credited to the deferred income tax provision in the balance sheet except for approximately $3,900,000 related to Canadian depletion which will be credited to income.

At December 31, 1976 undistributed earnings of subsidiaries amounted to $10,154,000. Taxes payable upon distribution, which could amount to approximately 15%, have not been provided since management believes that either such earnings will not be distributed in the foreseeable future or that no tax expense would be incurred because of available credits or deductions.

6. CAPITAL STOCK, CONTRIBUTED SURPLUS AND SHARE OPTIONS:

On April 28, 1976 the shareholders approved an increase in the authorized number of Common shares from 15,000,000 to 25,000,000. Changes in issued capital stock and contributed surplus are summarized below:

	Par Value		
	Series A Preferred Shares	Common Shares	Contributed Surplus
Balance, January 1, 1975	$24,187,000	$9,857,000	$47,211,000
Conversion of 1,324 Series A Preferred shares into 2,648 Common shares	(27,000)	3,000	24,000
Balance, December 31, 1975	24,160,000	9,860,000	47,235,000
Issuance of warrants to purchase 1,630,749 Common shares at $10 per share (Note 2)			2,242,000
Exercise of stock options (19,500 shares)		20,000	75,000
Balance, December 31, 1976	$24,160,000	$9,880,000	$49,552,000

Each Series A Preferred share is convertible at any time, at the option of the holder into two Common shares for each Series A Preferred share converted, such rate of conversion being subject to adjustment in specified circumstances. Series A Preferred shares may be redeemed by the Company at $20 per share.

During 1975 the Board of Directors of the Company, and subsequently the shareholders, authorized the issuance of options to purchase 300,000 of the Company's common shares. Under the plan, options may be granted to officers and employees through November 30, 1980. Holders of options may exercise at any time within five years of the date of grant but only while they continue to be employees. No charges to income were made in connection with the options because the exercise price is fair market value at the date granted. At December 31, 1976, options to purchase 226,500 shares at $4.75 to $6.83 per share were outstanding to employees, (82,000 to senior officers) and 54,000 shares were available for granting of options. The outstanding options expire on various dates from December 11, 1980 to November 10, 1981.

7. EARNINGS PER SHARE:

Earnings per share reflected in the statement of income are calculated pursuant to United States practice rather than Canadian practice since this results in more conservative amounts (referred to as "fully diluted earnings per share" under Canadian practice).

Earnings per share are computed on the weighted average of the Common shares outstanding during the period plus common equivalent shares represented by shares issuable upon conversion of Series A Preferred shares. Shares reserved for exercise of warrants are excluded from the calculation since assuming their issuance would result in an increase in the earnings per share amount. The dilutive effect of share options was insignificant in both 1976 and 1975.

The average shares used in calculation of earnings per share was as follows:

	1976	1975
Common shares	10,378,743	10,367,490
Assumed conversion of Series A Preferred shares ...	2,416,018	2,417,229
	12,794,761	12,784,719

Basic earnings per share, pursuant to Canadian practice, are calculated based on the weighted average of Common shares outstanding and net income after deduction for dividends paid to the Series A Preferred shareholders. Such dividends aggregated $845,000 in 1976 and $846,000 in 1975. Basic earnings per share were $.93 and $.79 for 1976 and 1975, respectively.

8. PENSION PLANS:

Pension expense for all plans was $1,386,000 in 1976 and $1,335,000 in 1975. Unfunded prior service costs aggregated $2,100,000 at December 31, 1976.

9. COMMITMENTS:

The present value of future rentals under all long-term agreements (excluding leases of oil and gas properties) approximates $8,700,000 at December 31, 1976. Minimum annual rental payments on the above leases are approximately $1,200,000 per year through 1981, $925,000 per year for 1982 through 1986, $325,000 per year for 1987 through 1991 and $275,000 per year for 1992 and 1993.

Aggregate rental expense, including short-term rentals but excluding leases of oil and gas properties was $1,842,000 in 1976 as compared to $1,785,000 in 1975.

During 1976 the Company began a project to upgrade and expand its refinery facilities. The project should result in improved product realizations, better energy utilization and reduced atmospheric emissions. At December 31, 1976, the Company was committed to future expenditures of approximately $3,500,000 in connection with this project.

10. RELATED PARTY TRANSACTIONS:

During 1976 and 1975 the Company purchased crude oil at market prices from Total International Limited, a wholly-owned subsidiary of Compagnie Francaise des Petroles ("CFP"), a French corporation which owns approximately 48% of the voting shares of the Company. The aggregate of such purchases was $51,900,000 in 1976 and $34,200,000 in 1975. Accounts payable at December 31, 1976, includes $6,665,000 related to these purchases, there being no balance owing at December 31, 1975.

The Company participates in a joint venture exploring for hydrocarbons with six other companies, one of which is a wholly-owned subsidiary of CFP and operator of the venture. In 1976 and 1975 the Company incurred costs aggregating approximately $2,000,000 and $1,500,000, respectively, attributable to its 5% interest in this venture off-shore Labrador.

Long-term debt includes a $4,000,000 note payable to a CFP affiliate. The terms of this borrowing are consistent with arrangements with other lenders.

11. QUARTERLY RESULTS: (unaudited)

The following summarizes certain quarterly financial information for 1976:

	Quarter Ended				
	March 31	June 30	September 30	December 31	Total
	(In thousands of dollars except per share amounts)				
Revenue	$66,391	$72,776	$75,145	$84,406	$298,718
Provision for income taxes	1,387	1,913	2,168	1,622	7,090
Net income	1,643	2,306	3,009	3,488	10,446
Net income per share	.13	.18	.23	.28	.82

During the fourth quarter inventories were reduced. This reduction resulted in a liquidation of LIFO inventories carried at lower costs as compared with the cost of 1976 purchases. As a result net income was increased by approximately $250,000, or $.02 per share.

12. STATUTORY INFORMATION:

During 1976 the direct remuneration paid to the Company's ten directors was $36,500 and to the eight senior officers was $498,700. One officer is also a director of the Company.

13. GENERAL DESCRIPTION OF THE IMPACT OF INFLATION: (unaudited)

The effect of inflation, as measured by general price levels, has been a significant factor in the increases in expenses in the refining, transportation and marketing portions of the Company's activities. However, changes in price levels more specific to the petroleum industry, widely fluctuating market conditions for both raw materials and products sold, and governmental control of the industry have had a greater impact on the economics of all of the Company's operations in recent years. These factors are discussed in more detail in the discussion accompanying the Summary of Operations in this report as to their effects on the results of operations.

The Company's financial position is also affected more by price levels peculiar to the industry than by

general price levels. The current assets (except for inventories valued by the last-in, first-out method) and liabilities are affected by the same selling prices and costs of raw materials and expenses that impact the results of operations. Property, plant and equipment, together with the related depreciation, depletion and amortization, reflects the accumulation of expenditures of many years. Current expenditures to replace and maintain productive capacity exceed similar expenditures in earlier years not only because of increases in price levels, but also because of other economic factors. This is particularly true with respect to the replacement and expansion of crude oil and natural gas reserves where higher market values have caused higher prices for acquisitions of underground reserves and have encouraged exploration in previously uneconomical areas. Replacing reserves becomes more difficult over time, because deeper drilling and more sophisticated exploration techniques are necessary.

During 1976 the Securities and Exchange Commission adopted regulations requiring that financial statements filed with the Commission include specific information regarding the estimated current replacement cost of the Company's inventories and productive capacity at December 31, 1976, and the related estimated effect of such costs on cost of sales and depreciation expense for the year. Because it recognized the particularly severe implementation problems involved in applying its concepts to mineral resource assets, the Commission exempted such assets from the regulations for one year. The information required by these regulations is included in the Company's annual report on Form 10-K, a copy of which is available upon request.

Report of Independent Accountants

To the Shareholders of
TOTAL PETROLEUM (NORTH AMERICA) LTD.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of changes in financial position present fairly the financial position of Total Petroleum (North America) Ltd. and its subsidiaries at December 31, 1976 and 1975, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

Detroit, Michigan
February 4, 1977

Board of Directors — *from left to right*

Name	Office	Principal Occupation
F. Campbell Cope, Q.C.	Director	Partner of the legal firm of Ogilvy, Montgomery, Renault, Clarke, Kirkpatrick, Hannon & Howard; Montreal, Quebec
Linden J. Richards	Director	Oil and Gas Consultant; Calgary, Alberta
Joseph-Camille Genton	Director	Director of Finance for Compagnie Française des Pétroles; Paris, France
Etienne L. Dalemont	Director	President of Compagnie Navale des Pétroles; Chairman of the Board of Total Petroleum (North America) Ltd. from November, 1971 until May, 1973; former Managing Director, CFP; Paris, France
James W. Glanville	Director and Chairman of the Board	Managing Director of Lehman Brothers, Inc.; New York, N.Y.
Philippe Dunoyer	Director and President	President of Total Petroleum (North America) Ltd.; Alma, Michigan
Reid Brazell	Director	Formerly Chairman of the Board and Chief Executive Officer of Total Petroleum (North America) Ltd.; now retired; Frankfort, Michigan
David L. Torrey	Director	Senior Vice President and Director of Pitfield, Mackay, Ross & Company Limited, investment dealers; Montreal, Quebec
Martin E. Citrin	Director	Partner, J. A. Citrin Sons Co., Real Estate and Investments; Southfield, Michigan
André M. Jacqmin	Director	Director of Operational Planning and Control for Compagnie Française des Pétroles; Paris, France

Principal officers and executives of Total Petroleum (North America) Ltd. and subsidiaries

Name	Office
James W. Glanville	Director and Chairman of the Board; New York, N.Y.
Philippe Dunoyer	Director and President; Alma, Michigan
Robert R. Dean	Vice President-Manufacturing, Supply and Transportation; Alma, Michigan
John E. Fawke	Vice President-Marketing; Romulus, Michigan
Paul H. Gutknecht	Vice President-Finance and Treasurer; Alma, Michigan
Philippe Magnier	Vice President-Exploration and Production; Houston, Texas
William G. Tucker	Vice President-Administration, Secretary and General Counsel; Calgary, Alberta
William F. Kellock	Vice President-Production; Calgary, Alberta
Robert A. Wall	Manager-Exploration and Land Operations; Calgary, Alberta
Colin S. MacDonald	Assistant Treasurer; Calgary, Alberta
Gilbert M. Kiggins	Chairman of the Board of Hanover Petroleum Corporation; New York, N.Y.
Glenn R. Moore	President of Hanover Petroleum Corporation; Dallas, Texas
John B. O'Brian	Vice President-Personnel and Industrial Relations of Total Petroleum, Inc.; Alma, Michigan
Richard E. Dana	Controller of Total Petroleum, Inc.; Alma, Michigan

TOTAL®

AR09

TOTAL PETROLEUM (NORTH AMERICA) LTD.

TOTAL

INTERIM REPORT

SIX MONTHS ENDED JUNE 30

1976

TO THE SHAREHOLDERS:

Net income during the first half of 1976 was $3,949,000, or 31¢ per share. In the same period of 1975 net income was $2,539,000, or 20¢ per share. Sales revenues increased to $139,167,000 from $109,096,000 in the first half of the previous year. Financial resources provided from operations were $13,091,000, up from $8,786,000 in the first half of 1975.

Net income in the second quarter increased to $2,306,000 from $2,047,000 in the same quarter of 1975. Financial resources provided from operations were $7,969,000 compared to $6,035,000 in the second quarter of 1975. May and June results for Hanover Petroleum Corporation are included in the 1976 figures, and accounted for about half of the increase in financial resources provided from operations.

EXPLORATION

During the first half of the year, your Company (excluding Hanover) drilled or participated in the drilling of 47 exploratory wells in Western Canada and in the United States. This drilling resulted in four oil wells, 14 gas wells and 29 dry holes. Two wells were suspended and four were drilling at the end of the period.

Five development wells were completed in the first half and resulted in one gas well and four oil wells, three of which were non-conventional heavy oil wells. One was drilling at the end of the period.

The Western Canadian exploration resulted in one oil well, ten gas wells and 11 dry holes. One gas well and three dry holes were drilled by farm-out without cost to your Company. The gas discoveries are located in the Pinehurst, Wandering River, McMillan, Joarcam, Notikewin and Dixonville areas of Alberta and in the Nig and Helmet areas of British Columbia. The oil discovery is located in the Utikuma area of Northern Alberta. At the end of the period, two tests were drilling, and the active drilling program commenced this year is continuing in view of the successful results.

On the Labrador Offshore, a very aggressive drilling program began in early August. A total of

three drilling rigs will be used to test the Snorri well, to deepen and test the Karlsefni well, to drill a prospect close to the Bjarni discovery of 1974 and to evaluate one to two additional prospects, the number depending on weather and drilling conditions. The drilling units are:

— the dynamically positioned drillship "Pelican", which operated successfully in the Labrador waters in the past three years.
— the dynamically positioned drillship "Petrel" of similar design to the "Pelican".
— a semi-submersible drilling platform equipped with a newly developed "quick-release system" enabling it to move rapidly off location in the event of icebergs. This unit will operate late in the season, when iceberg occurrences are at a minimum.

Michigan exploration during the first six months resulted in three gas discoveries, three oil discoveries and eleven dry holes. Two tests were suspended and three were drilling at the end of the period. Two tests in Illinois and one test in Colorado were abandoned during the first six months.

Offshore South Texas, your Company participated in the drilling of two test wells, neither of which was successful.

In the Gulf Coast area of Texas, onshore, your Company has developed several prospects which are in the process of being drilled.

In the Anadarko Basin of Oklahoma, your Company participated in a gas discovery.

Onshore Florida, your Company has secured partners and plans to commence drilling operations on the sizeable block of prospective acreage it has assembled.

PRODUCTION

Despite continued prorationing in Canada, your Company's production of crude oil and condensate increased 21½% to 1,297,365 barrels (7,128 barrels per day) compared with 1,064,788 barrels (5,882 barrels per day) produced during the corresponding period of 1975. Natural gas sales increased by 46% to an average of 31,424 MCF

per day compared with 21,543 MCF per day during the first half of last year. These figures include 224,484 barrels of oil and 1,056,300 MCF of gas produced by Hanover in May and June, 1976.

HANOVER PETROLEUM CORPORATION

Hanover Petroleum Corporation was merged into your Company on April 30th. Hanover continues to operate autonomously, although conforming to TOTAL's policies, and directed by an Executive Committee composed of Hanover and TOTAL Executives.

The management and staff of Hanover continued in their prior capacities and Hanover's exploration and development activities continued at an active pace. Hanover and its limited partners (excluding Series 13 drilling program) participated in the drilling of 37 gross wells, (8.12 net to Hanover) 24 were successful, (5.22 net to Hanover); 13 were plugged and abandoned. Of particular significance was the ongoing development of the R. K. Devonian Field in Martin County, Texas. As of June 30th, Hanover had participated in the successful completion of 17 wells in this field. Four dry holes had also been drilled. Two rigs are currently operating on this property and additional drilling will be required to fully define the productive limits of the field. As of June 30th, the daily rate of production for Hanover plus various Hanover programs was approximately 4,000 barrels of oil per day and 30 MMCF of gas per day. Hanover's corporate share of both oil and gas production is about 75%.

The Hanover Series 13 Drilling Program commenced operations in September, 1975 and has completed its initial exploratory phase. The program drilled 20 prospects, of which 9 were successful and 11 were abandoned as dry holes.

On August 3rd, Hanover closed the Series 14 Annual Drilling Program. Subscriptions of $3,680,000 were received (not including $250,000 invested by Hanover). This represents an increase in excess of 35% over the subscriptions received in the Series 13 program.

MANUFACTURING

During the first half of 1976, the Alma Refinery processed 7,033,818 barrels (38,647 barrels per day) of crude oil compared to 6,675,153 barrels (36,879 barrels per day) for the same period in 1975. The amount of Canadian crude processed has continued to decline. Canadian crude has dropped from 52% in 1972 to about 17% for the current period.

The construction projects scheduled for 1976 are proceeding according to plans. The first phase of the Fluid Catalytic Cracking expansion is scheduled for completion during the October turnaround, and engineering details are essentially complete for the second phase which is scheduled for completion in 1977.

Construction of a new crude oil pipeline pumping station is in progress and should be completed about November 1st. It will allow the shutdown of several sections of obsolete pipelines, thereby improving the efficiency and the environmental safety of the Company's crude oil transporting system.

MARKETING

The first six-month's sales of overall refined products are 11.5% above those for the same period of 1975 and were the highest sales for any six month period in the Company's history.

Gasoline sales for the six month period were 13.5% above the comparable 1975 sales. This increase was substantially higher than the approximate 5% increase in gasoline demand in the United States. Margins for gasoline improved during the latter part of the second quarter.

Distillates sales were 3.3% above those for the first six months of 1975.

Sales of industrial products were 13.7% above the 1975 level, reflecting the economic recovery. The greatest increase was in the sale of residual fuels with a 28% increase followed by railroad diesel and other light fuels with a 17.1% increase.

GENERAL

The economic, political and regulatory environment in which your Company operates continued to improve during the first half of 1976.

In Canada, oil and gas prices increased on July 1st: the $1.05 per barrel increase in oil prices was less than anticipated; it will be followed by a 70¢ per barrel increase in January 1977.

Gas prices will increase in steps between July 1st and December 31st by approximately 25%.

The Canadian Federal Government has announced an "Energy Strategy" stating, among it's objectives, a gradual adjustment of Canadian oil prices to world prices, and an adjustment of gas prices to their oil energy equivalent.

These developments confirm the renewed incentives to explore in Canada, for gas in particular, and enhance the value of the gas exploratory successes of your Company in the first half of 1976.

In the United States, crude oil prices remain controlled for 39 months starting February 1, 1976, under the Energy Policy and Conservation Act, which established a three-tier price system: old, new and imported. The Federal Energy Administration has amended its crude oil cost equalization program accordingly, to correct the resulting crude cost inequities among refiners.

The Federal Energy Administration has begun the process of gradually decontrolling petroleum products. Residual fuels were decontrolled on June 1st, distillates on July 1st. Hopefully, this will lead to total decontrol in the not too distant future.

Despite these recent improvements, some areas of concern remain regarding current or pending legislative action in the United States. The U.S. Environmental Protection Agency is about to enforce its regulations setting a maximum average of 1.4 grams of tetraethyl lead per gallon of gasoline produced by each refiner as of October 1, 1976, reducing to 1.0 grams/gallon on January 1, 1977. Your Company has taken steps to increase its production of unleaded gasoline and to reduce the average lead-content of its total gasoline production over a period of time and the current $9 million refinery improvement program will contribute to this objective. However, it is felt that the timetable mandated by the EPA is not realistic. Your Company, like other refiners, has appealed to the EPA for an extension of the deadlines.

A "Petroleum Marketing Practices Act" is being considered by the House of Representatives. One of the chief provisions of this act would be to impose a moratorium on the expansion of retail outlets operated by refiners. This would impose discriminatory restraints on one channel of trade which has proved to be a competitive force in the market for the benefit of the consumer, and which has enabled your Company, in particular, to compete more effectively in the marketplace in recent years.

Lastly, the threat of "divestiture" of the major integrated petroleum companies is still alive: your Company clearly opposes such an unwarranted and counter-productive move, and strongly supports industry's efforts in defeating this threat.

On behalf of the Board of Directors,

PHILIPPE DUNOYER
President

August 20, 1976

OPERATING AND LAND DATA

	Six Months Ended June 30	
	1976	*1975*
Crude oil and condensate production (bbls.)	1,297,365	1,064,788
Average bbls. per day	7,128	5,882
Natural gas sales (Mcf)	5,719,232	3,899,392
Average Mcf per day	31,424	21,543
Refined products sales (bbls.)	8,582,024	7,699,024
Crude oil refined (bbls.)	7,033,818	6,675,153
Gross land holdings (acres)	35,020,688	34,414,718
Net land holdings (acres)	3,808,114	3,863,586

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(United States Dollars)

	Six Months Ended June 30	
	1976	1975
Financial resources were provided by:		
Operations:		
Net income for the period	$ 3,949,000	$ 2,539,000
Income charges (credits) not affecting working capital in the period:		
Depreciation, depletion and amortization	5,842,000	3,910,000
Deferred income taxes	3,300,000	2,337,000
Financial resources provided by operations	13,091,000	8,786,000
Additional long-term borrowings	49,795,000	6,530,000
Proceeds from sale of future production	1,696,000	237,000
Sale of properties	712,000	740,000
Issuance of equity securities	2,261,000	—
Total financial resources provided	67,555,000	16,293,000
Financial resources were used for:		
Capital expenditures —		
Petroleum and natural gas interests and production equipment	60,105,000	8,595,000
Refining, marketing and transportation	1,531,000	3,764,000
Other	432,000	79,000
Long-term debt paid or reclassified to current liabilities	7,213,000	2,638,000
Dividends paid	423,000	423,000
Reductions of deferred income	966,000	1,227,000
Other	437,000	2,000
Total financial resources used	71,107,000	16,728,000
Increase (decrease) in working capital	$(3,552,000)	$ (435,000)
Changes in components of working capital:		
Working capital, beginning of period	$19,108,000	$10,301,000
Increase (decrease) in current assets:		
Cash and short-term investments	(7,174,000)	(5,793,000)
Accounts and notes receivable	9,605,000	(12,344,000)
Inventories	273,000	(1,044,000)
Other	(241,000)	(1,003,000)
	2,463,000	(20,184,000)
(Increase) decrease in current liabilities:		
Notes payable	(2,000,000)	(4,500,000)
Accounts payable and other accrued liabilities	504,000	24,937,000
Accrued taxes	(1,360,000)	(243,000)
Current portion of long-term debt	(3,159,000)	(445,000)
	(6,015,000)	19,749,000
Working capital, end of period	$15,556,000	$ 9,866,000

CONSOLIDATED STATEMENTS OF INCOME

(United States Dollars)

	Six Months Ended June 30	
	1976	1975
Revenue:		
Net sales of refined products	$125,850,000	$102,398,000
Net sales of crude oil and natural gas	12,486,000	6,404,000
Other income	831,000	294,000
	139,167,000	109,096,000
Costs and expenses:		
Purchased crude oil, products and merchandise	102,648,000	81,563,000
Operating	11,370,000	9,670,000
Marketing and administrative	9,614,000	7,740,000
Depreciation, depletion and amortization	5,842,000	3,910,000
Interest	2,444,000	1,337,000
Provision for income taxes	3,300,000	2,337,000
	135,218,000	106,557,000
NET INCOME FOR THE PERIOD	$ 3,949,000	$ 2,539,000
NET INCOME PER SHARE	$.31	$.20
Average outstanding shares	12,788,386	12,784,719
THREE MONTHS ENDED JUNE 30:		
Sales and other income	$ 72,776,000	$ 59,598,000
Provision for income taxes	$ 1,913,000	$ 2,116,000
NET INCOME FOR THE PERIOD	$ 2,306,000	$ 2,047,000
NET INCOME PER SHARE	$.18	$.17
Average outstanding shares	12,788,719	12,784,719

NOTES: Net income per share is computed assuming full conversion of Series A Preferred shares into Common shares. Common equivalent shares represented by warrants and employee stock options are not included in the calculation since assuming exercise is antidilutive or insignificant.

Dividends to the Series A Preferred shareholders were at the rate of 35 cents per share and aggregated $423,000 for each of the six month periods.

The financial statements include all normal adjustments and accruals, but are unaudited.

LITHOGRAPHED IN CANADA